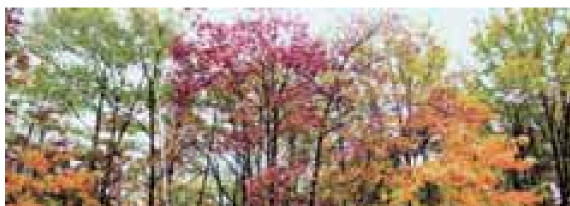
2006 ANNUAL REPORT



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LETTER FROM THE CHAIRMAN

TO OUR SHAREHOLDERS:

I am pleased to announce that 2006 was another outstanding year for the CEPSA Group.

Market conditions overall provided a favorable operating environment for our activities. The average price of crude oil was 20% higher than in 2005 and refining margins, despite a 35% year-on-year decline, were still relatively strong. The difficulties in passing along the surge in chemical feedstock prices, impacting our petrochemical intermediates business, were largely offset by solid earnings performance in basic chemicals.

The level of availability of our industrial facilities enabled us to raise our output and sales volumes, with over 30 million tons of products sold in the year.

Against this background we reported an adjusted net income of nearly 780 million euros (without including non-recurring items, mainly the difference between valuing inventory at average cost versus LIFO), only 6% less than the figure posted in 2005, a year marked by exceptional refining margins bolstered by supply disruptions on US markets.

Return on average capital employed (ROACE) for the Group in 2006 came to 17% while return on equity (ROE) was 18%.

The CEPSA Group's capital and exploration expenditures totaled over 580 million euros and the Company managed to scale back its interest-bearing debt, with the net debt-to-equity ratio coming to 10%. This improved financial leverage will allow us to readily handle the greater capital spending efforts envisaged for the next three years.

Allow me to take this opportunity to look ahead at our Company's future prospects and offer you a preview of some key projects we plan to undertake and which will sustain CEPSA's position among Spain's strongest, most trustworthy and dynamic corporations.

A STRATEGY FOR THE FUTURE

Oil & Gas Exploration & Production

For a number of years, CEPSA's core upstream assets have been located in northern Africa, specifically in Algeria, where we operate oil and gas fields in partnership with the national oil company SONATRACH. CEPSA has recently expanded its exploration activities, signing agreements in Colombia and Egypt where it is conducting seismic and drilling work, and also plans to diversify its portfolio by seeking out new acreages in Latin America and Africa. In this challenging and complex business, the Company's main target is to maintain its level of reserves, replacing the natural decline in current fields with new discoveries or acquisitions.

These objectives have been set out in CEPSA's Strategic Plan which, as regards the E&P segment and unlike the rest of the Company's business divisions, is prepared using a 10-year timeframe.

Refining

The market has witnessed unflagging growth in demand for middle distillates, primarily diesel fuels and kerosene. The rise in automotive diesel consumption has been sustained by the expansion of diesel-engine vehicles whereas jet kerosene demand has been underpinned by the increase in air traffic. This situation has made it necessary, in the case of Spain's market, to import 14 million tons per year of these products, relying heavily on outside sources.

CEPSA has prepared an action plan for its refining segment to raise the efficiency of its facilities, from the viewpoint of both energy savings and as a means of alleviating the current shortage of middle distillates. This plan entails a number of schemes and initiatives at the Company's three refineries, with a total capital spending figure of 1,650 million euros up until 2010, practically 70% of which will be assigned to the middle distillate capacity expansion project at the La Rábida Refinery in Palos de la Frontera (Huelva), expected to create steady employment for nearly 150 people.

I would like to underscore, furthermore, that CEPSA supports the production and use of biofuels, provided that the same rigorous quality specifications as with fossil fuels are fulfilled. For almost a decade now, our Company has been blending bioethanol-based ETBE (commonly used as an oxygenate additive) into its gasoline, and cooperative agreements have been signed to build new biodiesel plants. As a noteworthy development in this area, in 2006, CEPSA began selling automotive diesel "B10", with a 10% biodiesel content.

Petrochemicals

The Company's petrochemicals activity has grown at a rapid pace over the past few years, driven by a large-scale capital spending program that has catapulted CEPSA's chemical affiliates into top positions on global markets. CEPSA has production and storage facilities in Europe, Canada and Brazil, and is poised to expand into Asia.

Now that we have completed the deployment of cutting-edge technologies at these sites, sustaining our positions, where we have even attained leadership in a number of niche products, will require careful planning and a disciplined and selective investment approach focusing on quality, energy efficiency and environmental performance.

At the same time, our Company seeks to capitalize on any growth opportunities that may arise, such as the potential increase in demand for polycarbonates used in the audio, video and automobile industries, which has prompted us to expand our cumene and phenol/acetone production capacity and will rank us as the second European supplier of these products.

Gas & Power

One of the most significant projects that we have undertaken in recent years is MEDGAZ, with CEPSA being a founding partner and core shareholder, holding a 20% stake. Conceived from the start as a "project to conduct a feasibility study on the construction of a new gas pipeline between Algeria and Europe via Spain", it has successfully completed all the various developmental phases to become a reality. MEDGAZ has recently awarded and signed the engineering, procurement and construction contracts for the deepwater pipeline, with start-up slated for early 2009.

For a number of years, CEPSA has made a firm and unwavering commitment to enhancing energy efficiency, deploying cogeneration plants that simultaneously produce electricity and useful heat at its major facilities. In order to further advance these energy saving and optimization goals, CEPSA recently commissioned a natural gas-fired combined cycle power plant. Both projects have contributed considerably towards reducing greenhouse gas and pollutant emissions from the Company's industrial plants, which is one of our core targets for the coming years.

Marketing

CEPSA has an extensive network of modern and competitive retail sites, offering added value in the form of premium products and services that are tailored to meet our customers' needs and lifestyles. This goal has made us allocate considerable expenditures towards upgrading our asset base and equipping our service stations with the most innovative enhancements and technologies available on the market, while at the same time developing our customer loyalty schemes and diversifying our range of non-fuel products.

At year-end 2006, CEPSA had 1,715 retail sites operating in Spain and Portugal.

OUR COMMITMENTS

To accomplish our goals, CEPSA can draw on a number of strengths, such as a solid financial structure, a first-class portfolio of plants and facilities that are equipped with industry-leading technologies, and robust positions and performance in markets and operations in a wide variety of energy-related businesses and sectors across the globe. Thanks to our capabilities, we can readily pursue the plans and projects required for the future and that are rooted in our mission of responsibly managing resources and exemplify our employment, social and environmental values and concerns.

One of our basic cornerstones is the belief that professional growth and development is vital to our employees and to our success as a company. As a result, CEPSA strives to ensure that its personnel are kept up-to-date through training plans and programs aimed at providing them with the appropriate tools and know-how to optimally support and advance their skills and competencies. Year after year, roughly half a million instructional hours are offered on a variety of topics and areas in response to the needs of our employees, our businesses and the global marketplace.

Another objective that has garnered considerable attention from the Company is that of improving its energy efficiency. Accordingly, CEPSA has developed and put into place planning processes and specific energy-saving and emission-reduction measures that resulted in a year-on-year decline in its CO_2 emissions of 182,000 tons, as certified by the Spanish accreditation agency AENOR. The Company's refining facilities have been consistently pursuing further plans and measures aimed at achieving even greater emission cuts.

CEPSA has at all times demonstrated a steadfast commitment to conducting its operations soundly, reliably and efficiently while at the same time stringently monitoring environmental impacts on surrounding communities. The Company has a long tradition of public service, and is continuously engaged in collaborative efforts with a number of organizations to help the most disadvantaged sectors of society. Its efforts are likewise directed towards biodiversity improvement, endangered species protection, flora and fauna recovery and the preservation of local cultural and popular traditions. Furthermore, CEPSA is actively involved in funding and sponsoring a wide variety of athletic, scientific, educational and cultural initiatives and events and is focused on creating a meaningful dialogue and stable relationship built on trust between the Company and the diverse communities where we do business, in a way that brings benefits to all sides.

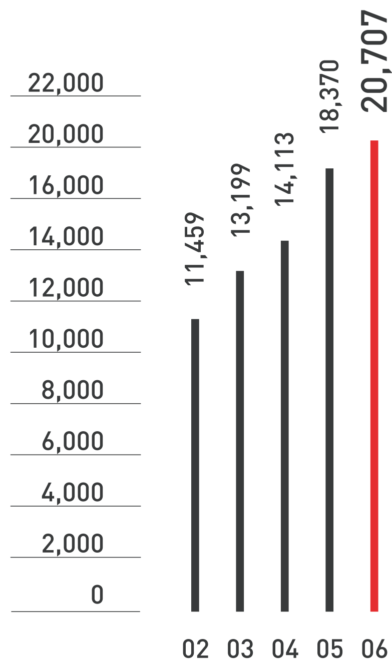
These are our commitments: to continue shaping the business fundamentals that will reaffirm our position as a leading energy company focused on building long-term, sustainable value for our shareholders; to retain and motivate our talented and dedicated team of professionals; and to pursue actions and initiatives that respond to society's expectations and the public's concerns. Undoubtedly these are formidable challenges, but I am convinced that with your loyalty and support, together we can achieve our goals.

Carlos Pérez de Bricio
Madrid, March 2007

KEY FIGURES

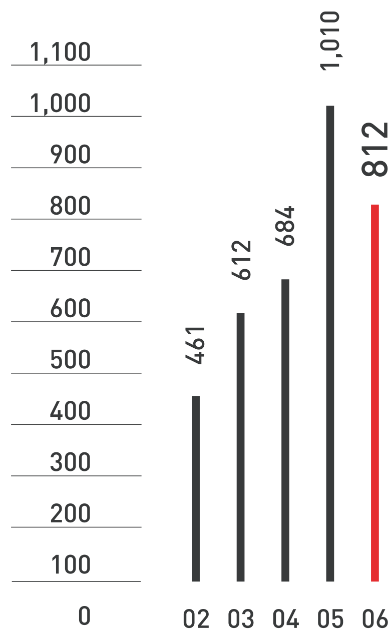
SALES & OPERATING REVENUES

(Millons of euros)



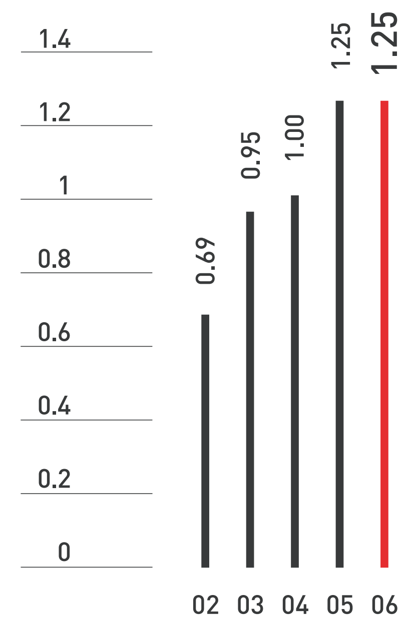
NET INCOME

(Millons of euros)



DIVIDEND

(Euros per share)



KEY FIGURES OF THE CEPSA GROUP (*)

	2006	2005	2004	2003	2002
Results (millions of euros)					
Sales & operating revenues	20,707	18,370	14,113	13,199	11,459
Sales & operating revenues (1)	18,474	16,188	11,945	11,056	9,407
Operating income	1,153	1,528	1,048	913	471
Consolidated income before taxes	1,190	1,518	1,058	946	575
Consolidated attributable net income	812	1,010	684	612	461
Consolidated attributable net income (**)	777	829	625	496	461
Dividend declared by CEPSA (2)	334	334	268	254	185
Return on average equity (ROAE) (%)	17.9	25.6	20.2	22.6	19.3
Return on average capital employed (ROACE) (%)	16.9	18.5	14.8	15.1	12.9
Financial Data (millions of euros)					
Share capital	268	268	268	268	268
Shareholders' equity (3)	4,779	4,310	3,598	2,899	2,518
Capital employed	5,343	5,054	4,637	4,206	4,049
Capital & exploration expenditures	581	551	579	485	709
Financial Data per Share (in euros)					
Net income	3.03	3.78	2.56	2.29	1.72
Cash dividend	1.25	1.25	1.00	0.95	0.69
Pay-out ratio (%) (**)	43	40	42	42	40
Stock Market Data					
Average price per share (euros)	54.47	37.43	28.37	25.67	16.58
Year-end price per share (euros)	59.40	38.65	29.70	27.50	17.39
Year-end market capitalization (millions of euros)	15,894	10,342	7,947	7,358	4,653
Dividend yield (%)	2.29	3.34	3.52	3.70	4.16
P/E ratio (on average share price for the year)	17.96	9.91	11.10	11.22	9.63
Operating Data (millions of tons/year)					
Refining capacity	22.2	22.2	22.2	22.2	22.0
Treated crude oil	21.7	21.5	20.9	21.1	20.5
Product sales (4)	30.0	29.8	29.0	27.9	25.8

(*) Unless otherwise mentioned, the foregoing figures for 2006 to 2004, were determined by applying new International Financial Reporting Standards (IFRS). Figures for 2003 and 2002 were obtained using Spanish GAAP effective during those years.
(**) Excluding non-recurring items (mainly the difference between valuing inventory at average cost vs.LIFO)

(1) Excluding excise taxes on oil & gas.
(2) For comparative purposes, 2006's figures include the dividend proposal to be submitted for approval of the Annual General Meeting of Shareholders.
(3) Attributable to shareholders of the parent company before final dividend for the year.
(4) Excluding crude oil sales.

BOARD OF DIRECTORS

BOARD OF DIRECTORS(1)(2)

Honorary Chairman
Alfonso Escámez López

Chairman & Chief Executive Officer
Carlos Pérez de Bricio (*) (***)

Vice-Chairmen
Alfredo Sáenz (*) (***)
Michel Bénézit (*) (***)

Chief Executive Officer
Dominique de Riberolles (*)

Board Members
H.R.H. Carlos de Borbón-Dos Sicilias,Infante of Spain
José Luis Leal
Mohamed Nasser Al Khaily (*) (**)
Juan Rodríguez Inciarte
Ernesto Mata
Vincent Méary (**)
Menno Grouvel (*)
Jacques Porez
Fernando de Asúa (**)
Jean Privey
Bernadette Spinoy
José Manuel Otero
Murtadha M. Al Hashemi
Pedro López Jiménez
Eric de Menten (*)

Secretary of the Board of Directors, Executive Committee and Audit Committee
Alfonso Escámez [3]

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

(1) Configuration of the Board of Directors at March 23, 2007, the date on which the 2006 Financial Statements, Management Discussion & Analysis and Proposal for Profit Distribution of Compañía Española de Petróleos, S.A. (CEPSA) were approved.

(2) During the year, Jean-Paul Vettier and Pierre Klein voluntarily tendered their resignations as Directors, and the following new members were co-opted onto the Board to replace the outgoing Directors: Michel Bénézit, ratified by the Annual Meeting held on June 23, 2006, and Eric de Menten, whose appointment will be submitted for ratification at the Company's next AGM to be held in the first half of 2007.

(3) Appointed at the Board of Directors meeting held on June 23, 2006, replacing Fernando Maravall, who formerly held these offices.

EXECUTIVE MANAGEMENT COMMITTEE [1]

1 Chairman & Chief Executive Officer
Carlos Pérez de Bricio

2 Chief Executive Officer, Senior Vice President - Corporate Planning & Control and Senior Vice President - Oil Marketing
Dominique de Riberolles

3 Senior Vice President - Exploration & Production, Natural Gas & Corporate Management
Fernando Maravall

4 Senior Vice President - Corporate Technical Division
Ignacio Gómez

5 Senior Vice President - Petrochemicals
Fernando Iturrieta

6 Senior Vice President - Human Resources, Legal Affairs & Property Asset Management
Juan Rodríguez Fidalgo

7 Vice President - Supply, Trading, Bunkering and Aviation
José María Múgica

Secretary of the Executive Management Committee
Juan Manuel Ferreras

SENIOR ADVISORS

Vice President - Specialties
José E. Aranguren

Vice President - Retail/Wholesale Operations
Francisco Calderón

Vice President - Exploration & Production
Pedro Miró

Vice President - Institutional Relations
Carlos Alcázar

Vice President - Commercial Planning and Distribution
Félix de Miguel

[1] Configuration of the Executive Management Committee at March 23, 2007

SUMMARY OF CEPSA GROUP ACTIVITIES

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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: 117 million belonging to the RKF field and 478 million to the portion of OURHOUD located in the aforementioned block.

At year-end 2006, 347 million barrels were pending extraction, out of which CEPSA's entitlement, based on its equity interest and the terms and conditions of the production-sharing contract (PSC) governing its operations, comes to roughly 120 million barrels, calculated by using benchmark Brent crude oil prices effective at the end of the year. Alternatively assuming a steady Brent crude oil price of $40 per barrel, recoverable reserves attributable to CEPSA would total 150 million barrels.

The aforementioned volume of reserves does not in any way include recoverable reserves beyond the duration of the concession agreement or operating license. The estimate of CEPSA's entitlement was determined based on the established contractual and economic conditions, that may vary as a result of the effect that the prevailing crude oil price has on stipulated cost-recovery mechanisms.

A noteworthy development at the end of the year was the enactment of a new windfall tax on oil-generated profits in Algeria - retroactively effective to August 1, 2006.

CEPSA estimated the tax expense in this connection and an allowance was made accordingly against the year's earnings.

RKF Field

This field, in which CEPSA holds a 100% working interest, came on-stream in 1996.

RKF yielded 7.2 million barrels of crude oil in 2006, practically the same as in recent years, having therefore maintained plateau production for a total of 9 years. Aggregate output since the field began producing amounted to 70.1 million barrels.

Throughout the year, work continued towards advancing the RKF field development and upgrading plan. On the whole, 6 new wells were drilled in order to maintain production levels; 5 of them being development wells, with positive results, whereas 1 was an exploratory well, which proved unsuccessful.

The aforementioned plan also envisages the enlargement of the central processing facilities (CPF). Thus, an EPC contract has been signed, the consistency of the engineering work assessed and the procurement activities launched. 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.

Capital & exploratory expenditures assigned to this field amounted to 33 million euros in 2006.

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 of roughly 3,100 meters, with a recorded net hydrocarbon pay of between 30 and 60 meters.

Ourhoud is both developed and operated as a unitized field by a consortium made up of the licensees of the blocks that comprise it (Block 406A and adjacent Blocks 404 and 405), with CEPSA's total working interest coming to 39.75%.

The field, which started producing at full capacity in 2003, had an output of 85.6 million barrels in 2006 (averaging just over 230,000 BOPD), equivalent to around 17% of Algeria's aggregate production. Ourhoud's total cumulative production comes to 313 million barrels of high-quality crude oil.

In order to maintain pressure, 1,236 million cubic meters of gas and 16.5 million cubic meters of water were injected in the year.

The field's facilities currently 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 2006, a total of 38 crude producing wells, 23 water injection wells, 5 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 and exploration expenditures in OURHOUD totaled 32.6 million euros.

TIMIMOUN BLOCK

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

In 2006, the results of the 2D and 3D seismic surveys performed the previous year were processed and interpreted; 1 exploratory and 2 appraisal wells were drilled; and 3D geological and numerical simulation models were built in order to have a more accurate idea of the gas volumes and production profiles for each of the possible development scenarios. CEPSA's capital spending in this block came to 8.4 million euros.

COLOMBIA

CEPSA's operations in Colombia are located in the Upper and Middle Magdalena River Valley.

UPPER MAGDALENA RIVER VALLEY

CEPSA has interests in the "Espinal", "San Jacinto", "Río Paez" and "Achira" Blocks, as well as in 2 Technical Evaluation Areas (TEA's) known as "San Bernardo" and "Yaví".

In the "Espinal" Block (CEPSA, 16%; ECOPETROL, 50%; and the operator PETROBRAS, 34%), 3 small fields with declining production are being operated, which yielded 1.6 million barrels in 2006, with CEPSA's net entitlement coming to 194,000 barrels. In order to halt this decline, 3 new wells (2 injection and 1 producing) were drilled in the year, and work was conducted to upgrade the processing facilities The plan for 2007 is to drill 2 new development wells.

Recoverable reserves at the end of 2006 were estimated to total 9.8 million barrels, approximately 1.2 million of which are assigned to CEPSA.

In the "San Jacinto", "Rio Paez" (CEPSA, 33.3%; PETROBRAS, 30%; and the operator HOCOL, 36.7%) and "Achira" (CEPSA, 23.3%; ECOPETROL, 30%; PETROBRAS, 20%; and the operator, HOCOL, 26.7%) Blocks, exploratory work is underway by the various consortiums. In 2006, 2 exploratory wells were drilled and a 2D seismic survey was undertaken to subsequently determine the 2007 work program.

In the TEA's "San Bernardo" and Yaví" (CEPSA, 30%; NEXEN, 35%, the operator of "San Bernardo"; and PETROBRAS, 35%, the operator of "Yaví"), mapping, geochemical and seismic reprocessing work was completed.

MIDDLE MAGDALENA RIVER VALLEY

Mapping, geochemical and seismic reprocessing are currently in progress in the Middle Magdalena River Valley, where CEPSA is the operator of the "Bituima" Block (CEPSA, 50% and ECP, 50%) and the TEA of "La Unión" (CEPSA, 100%).

Similarly, regional studies were performed on the Los Llanos Basin and 2 permits were requested in this location, under the format of a TEA, which are pending approval by the Colombian National Hydrocarbons Agency.

CEPSA's capital and exploration expenditures in Colombia amounted to 9.7 million euros.

EGYPT

In 2006, CEPSA was awarded a new exploration permit for the South Alamein Block after successfully bidding in a licensing round organized by the Egyptian Government and which involves an initial exploratory phase for a three-year period. Work is due to begin at the end of 2007, consisting of 3D seismic acquisition and a 2D seismic reprocessing program.

As regards the license awarded for the North Bahrein Block in Egypt's Western Desert (CEPSA, 25%; the operator ENI, 75%), work began on performing 2D and 3D seismic surveys which will be completed in 2007.

CEPSA has also actively taken part in other bid-rounds to award blocks, organized by the Egyptian authorities.

Capital spending in this area totaled 2 million euros in 2006.

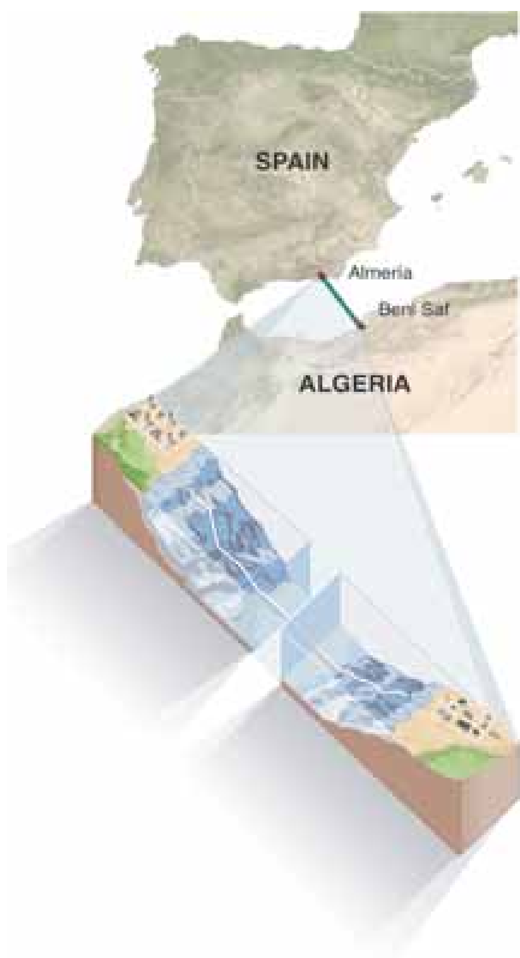
DOMESTIC UPSTREAM

CEPSA's production activities were primarily focused on the off-shore Mediterranean "Casablanca", "Rodaballo" and "Boquerón" fields, located near the coast of Tarragona. Aggregate output in 2006 stood at 0.9 million barrels of crude oil, with the Company's entitlement, based on its equity interests, coming to 71,000 barrels.

As regards exploration projects, seismic data processing work is currently ongoing in the oil and gas exploration permits "East and West Vallfogona", located in the Catalonian Pyrenees.

EXPLORATION & PRODUCTION	2006	2005
Net crude oil sales (millions of barrels)	8.7	9.9
Capital & exploration expenditures (millions of euros)	91	76
Operating income (millions of euros)	396	357

NATURAL GAS



MEDGAZ

Incorporated in 2001, MEDGAZ, a consortium of leading Spanish and foreign energy companies, was set up to study, design, build and operate a new deepwater natural gas pipeline linking Algeria directly to Europe via Spain, with CEPSA being one of the project's founding partners and core shareholders (20%).

MEDGAZ, regarded as highly strategic for both Algeria and Spain, has been included in the list of "Projects of Common Interest" within Trans-European Energy Networks (TEN), and was awarded Priority "A" status by Spain's Cabinet in 2005 in its revision of the "2005-2011 Energy Plan".

The new pipeline will transport natural gas from the production center of Hassi R'Mel and the coastal city of Beni Saf in Algeria to landfall at the Perdigal Beach in the province of Almería, Spain. The total offshore distance of the pipeline is 210 km across the Mediterranean seabed, and the central section will reach a maximum water depth of 2,160 meters. The MEDGAZ pipeline will be integrated into Spain's gas grid through the Almería-Albacete pipeline, whose development and execution were assigned to ENAGAS, the Spanish gas transmission system operator (TSO), at the end of 2005.

Throughout the year, the necessary regulatory permits were granted both in Algeria (Environmental Impact Statement and Authorization) and Spain (Environmental Impact Statement, public maritime domain occupancy permit and administrative authorization) to proceed with the construction phase, which began at the end of the year, with the main EPC contracts awarded following the Firm Investment Decision (FID).

In 2006, an agreement for the acquisition of natural gas through the MEDGAZ pipeline was signed by and between CEPSA and the Algerian national oil company SONATRACH. This agreement, effective for a 20-year period starting in 2009, envisages the purchase of 1.6 BCM (billion cubic meters) per year for both CEPSA's internal consumption and its commercial activities.

The pipeline, slated to come on-stream in 2009, will initially transport 8 BCM/yr (billion cubic meters per year) of natural gas.

CEPSA GAS COMERCIALIZADORA

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

As part of its long-term agreements with its shareholders, SONATRACH and TOTAL, as well as from swap transactions with other retailers, the company received 35,413 GWh of LNG shipments in 2006, and regasified, transported and distributed this gas by virtue of TPA (Third-Party Access) contracts in force with ENAGAS and GAS NATURAL.

Sales by this affiliate came to 35,475 GWh of natural gas, surging 88% year-on-year. This figure includes both sales to end customers, largely in industrial and commercial markets, as well as gas swaps with other retailers for a total of 21,210 GWh, in order to optimize tolls and guarantee an inventory volume consistent with the needs of the Spanish gas grid.

CEPSA GAS COMERCIALIZADORA's share of Spain's liberalized market, which according to information from the National Energy Commission (CNE) accounts for 86% of total gas consumption, was 3.9% in 2006 (versus 1.2% 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 GAS, which holds the remaining 60%. The company has received regulatory approval to supply gas in various townships of Madrid, Galicia and Castile-La Mancha.

In 2006, GAS DIRECTO delivered 352 GWh of natural gas to over 3,100 residential and industrial customers, meaning a 19% increase in its clientele from the previous year.

ELECTRICAL POWER

Highlights of the year include the commissioning of a new 2.2 km pipeline to begin deliveries of natural gas to the townships of Torrejón de la Calzada and Torrejón de Velasco (Madrid), in addition to the corresponding government authorizations granted by the Autonomous Community of Madrid for the execution and operation of the natural gas transmission network in new property developments and fast-growing areas of Madrid, such as the Valdebebas Park, measuring over 1,060 hectares and where around 15,000 new homes will be built, as well as major architectural projects such as a future judicial city modeled along the lines of a university campus, called "Campus de la Justicia" (Law Campus).

NUEVA GENERADORA DEL SUR

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

In 2006, the second full year of operations, this plant generated 3,702 GWh of electrical power and 1.34 million tons of steam.

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 standpoint, the sale of generated steam to the Gibraltar-San Roque Refinery has led to a sharp reduction in CEPSA's nitrous oxide (NO_x) and sulfur dioxide (SO_2) emissions.

COGENERATION (CHP)

In order to enhance energy efficiency at its refineries and production sites, CEPSA has 5 cogeneration (also known as combined heat and power or CHP) facilities, with a total authorized capacity of 230 MW.

This activity is centralized through GEPESA (CEPSA, 70%; SONATRACH, 30%), which owns 4 of the abovementioned 5 cogeneration units, and COTESA, which is 100% CEPSA-owned and has a cogeneration plant at the Tenerife Refinery.

The adjacent table shows figures for authorized output and power and steam production from these units in 2006, which stood in line with last year's levels in both cases.

In order to meet steam consumption needs at CEPSA's future facilities in Palos de la Frontera (Huelva), plans are to build a new cogeneration plant, the basic engineering of which has already been completed.

COMPANY	Authorized output MW	Power production GWh	Steam production thousands of tons
GEPESA:			
La Rábida Cogeneration Plant	50	381	1,112
GEGSA Cogeneration Plant	74	600	1,245
GETESA Cogeneration Plant	41	305	527
GEMASA Cogeneration Plant	27	206	396
COTESA	38	239	530
TOTAL	**230**	**1,731**	**3,810**

GAS & POWER	2006	2005
Natural gas sales (GWh)	35,475	18,854
Electrical power sales (GWh)	3,540	3,770
Steam sales (thousands of tons)	4,234	4,092
Capital expenditures (millions of euros)	67	24
Operating income (millions of euros)	49	76

TRADING, REFINING, MARKETING AND BASIC CHEMICALS

SUPPLY AND TRADING

In 2006, a total of 22.1 million tons of crude oil (159.6 million barrels) were unloaded at CEPSA's refineries in 2006, 560,000 tons, or 2.6%, more than the previous year's volume.

The industry-leading technologies deployed at 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.

As regards crude oil sourcing, 35.9% came from countries in West Africa, 33.9% from the Middle East, 13.6% from the Caribbean/Mexico, 12.8% from Russia, 3.5% from Northern Africa and the rest from European countries.

Additionally and to meet the needs of its growing customer base, CEPSA directly acquired, mainly on international markets, 7.3 million tons of oil and chemical products, primarily gas oils, fuel oils and kerosene. This volume was up 350,000 tons, or 5%, from the year before.

REFINING

CEPSA conducts its core refining operations at its 3 wholly-owned refineries in Spain: the Tenerife Refinery, located in Santa Cruz de Tenerife; the Gibraltar-San Roque Refinery, in San Roque (Cádiz); and the La Rábida Refinery 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 1.5 million tons per year.

Altogether, CEPSA's refining capacity, including its stake in ASESA, amounts to 22.25 million tons per year, accounting for 33% of the country's capacity.

These refineries are managed using a plant-wide optimization model, which seeks to maximize synergies among the 4 refineries to achieve a high level of integration between refining and petrochemical operations.

CEPSA's refinery throughput totaled 21.7 million tons in 2006, 200,000 tons more than the year before, with the average utilization rate of CEPSA's refining capacity coming to roughly 98%, not only a record-setting percentage but also 6 points higher than the national rate.

From an operational point of view, 2006 highlights include the start-up, at the end of the year, of the Light Naphtha Reformer (LNR) in the La Rábida Refinery, which includes an Aromax® unit, with a 12,000 bpd capacity, and a unit using Morphylane® technology for aromatics recovery. This project, enabling benzene production to be raised by nearly 300,000 tons per year, will meet demand arising out of the planned productive capacity expansion in the subsidiary ERTISA, and additionally raise cyclohexane production and boost the flexibility and capacity of the Refinery's desulfurizing units, as a result of the increase achieved in hydrogen availability. Projects in progress at the end of the year include, at the Gibraltar-San Roque Refinery, the construction of a metaxylene recovery plant, with a 50,000 tpa capacity, and the commissioning of a project to build a 1.2 million tpa vacuum unit, in addition to a hydrogen plant, which will enable operating the Isomax gas oil conversion facility as a Mild Hydrocracker (MHC) and raising middle distillate production by 300,000 tons per year; a new amine and sulfur plant; the deployment of a sour water stripper and new middle distillate tanks; and the addition of a rack at the mooring dock. At the La Rábida Refinery, a variety of projects were underway, such as the basic engineering and front-end engineering

design (FEED) for the crude distillation capacity expansion of 3.8 million tons per year and the construction of a hydrocracker with a 2.1 million tpa capacity, which will allow raising production of middle distillates by 2.7 million tons per year and alleviate the current shortage. And lastly, at the Tenerife Refinery, some developments include tertiary wastewater treatment projects; the revamping of the kerosene desulfurizing unit and the crude exchanger train; the conversion of the sulfur plants using the latest-generation SuperClaus® technology; and the construction of a new 15,000 cubic meter tank for benzene concentrate.

During the year, CEPSA continued harnessing maximum botton-line benefits by reducing energy-related capital expenditures and operating costs through improvement programs undertaken by the consulting firm KBC,such as the PIP (Profit Improvement Program), Yield and Energy Survey and Utility Optimizer.

Another milestone in 2006 was that CEPSA managed to reduce its CO_2 emissions compared to its allocated trading rights, as a result of planning processes, the use of fuels with a better carbon/hydrogen ratio and specific energy-saving and emission-reduction measures that the Company has been consistently pursuing. Noteworthy in this regard was also CEPSA's participation in the Spanish Carbon Fund, created through an agreement between Spain's Government and the World Bank as a tool to address the challenge of climate change while promoting the use of cleaner technologies and sustainable development.

As regards biofuels, measures were taken during the year to advance the license awards for the construction of a 200,000 tpa biodiesel production facility on land adjacent to the Gibraltar-San Roque Refinery belonging to ABENGOA BIOENERGÍA, in addition to a second 250,000 tpa biodiesel facility to be built by BIO OILS ENERGY on property bordering the La Rabida Refinery.

The output from both plants, scheduled to come on line in the second half of 2008 and whose manufacturing processes involve the use of raw vegetable oil, will be blended with regular automotive diesel sold by CEPSA's retail network, leading to a significant reduction in greenhouse gas (GHG) emissions as well as other environmental pollutants.

Likewise in the year, CEPSA exercised its purchase option on 90% of the shares of ETBE HUELVA -the proposed merger-takeover of which will be submitted to the shareholders at the 2007 Annual Meeting for approval- after successful verification of the performance of the plant within a 2-year period, in order to produce, at the La Rábida Refinery, ETBE (ethyl tertiary butyl ether), an octane-boosting gasoline component made from bioethanol and FCC isobutylene.

DISTRIBUTION & MARKETING

Petroleum product consumption in Spain totaled 73.9 million tons in 2006, slipping 1.1% from the year before chiefly as a result of milder weather conditions.

By product groups, demand for the lightest products continued to decline vis-à-vis the previous year, with gasoline and LPG falling 4.5% and 9.5%, respectively. On the other hand, middle distillate consumption rose steadily, with a year-on-year increase of 4.4% in kerosene and 2.8% in diesel fuels; in fact, diesel accounted for 47.7% of total petroleum product consumption, 5 times higher than gasoline usage.

Despite this slight dip in oil product consumption in Spain, CEPSA sold a total of 27 million tons of petroleum products in 2006, nearly 200,000 tons higher than the year before.

As regards retail prices on petroleum products in Spain, premium unleaded 95 gasoline and automotive diesel A prices (including taxes) continued to be the lowest among the EU-15 countries. Specifically, at the end of 2006, gasoline prices in Spain were 17% lower than in France and 20% lower than in Portugal, whereas diesel prices were 12% and 10% lower, respectively.

Similarly, the retail price on liquefied petroleum gases (propane and butane) subject to government-imposed price caps continued to be clearly below the EU average. For example, as compared to prices in Portugal and France, LPG prices

in Spain were 23% and 50% lower, respectively, than in the aforementioned countries.

RETAIL/WHOLESALE OPERATIONS

The wholly-owned affiliate CEPSA ESTACIONES DE SERVICIO sold 13.7 million tons of petroleum products in 2006, nearly 1% more than the year before, and continued to focus on leveraging its retail presence on the domestic market, consolidating its position as a leader in customer service, particularly as regards loyalty schemes for private motorists, and growing its non-fuel business by broadening its array of innovative retail products, so as to offset the loss of revenues from the ban on tobacco sales.

Consistent with this strategy, CEPSA carried on optimizing and upgrading the underlying structure of its retail asset base through selective investments in high-volume, service-oriented stations in urban and metropolitan areas, complemented by equally selective divestments of less attractive or lower volume retail sites. At year-end 2006, the Company had 1,715 gas stations operating in Spain and Portugal.

As in prior years, the "Internal Customer Ombudsman" acted as a tool to gain a better grasp of consumers' perceptions, needs, concerns and opinions, and also use these as indicators of customer satisfaction and sources of product and service improvement, benchmarking and best practices in this business division.

Reflecting its commitment to quality innovation, all of the Company's retail sites now sell the high-performance range of motor fuels sold under the name "OPTIMA" (diesel and unleaded 95 and 98 RON 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 automotive fuels.

Progress was made in developing sales of "AdBlue", a reagent used in new generation Selective Catalytic Reduction (SCR) systems on diesel-powered heavy commercial vehicles to reduce harmful nitrous oxide (NOx) emissions, in fulfillment of recently introduced European "Euro IV" and "Euro V" standards.

In order to broaden CEPSA`s commercial offerings and reward loyal customers, the following schemes were in place at year-end:

- "PORQUE TU VUELVES" card providing discount points for purchases that can be exchanged for specific catalog offerings, C-store products, services or motor fuels.

- "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 TU VUELVES" program.

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

Additional schemes include:

- TRANS CLUB, created 14 years ago as a pioneer in payment tools for fleet drivers, which continued to consolidate its outstanding quality image and service.

- AGRO CLUB, the Company's loyalty scheme targeting farmers and stockbreeders.

CEPSA upheld its leadership position in the non-fuel sales segment with a chain of over 800 convenience stores, offering a wide assortment of products and services tailored to meet the needs and lifestyles of the Company's expanding clientele. Further

growth of this business was underpinned by the introduction of DEPASO's new brand and image design, the development of a second store format called MINISTOP and the opening of stores located in urban areas outside service stations, known as "CITY-SHOPS", designed to appeal to a growing and more diversified customer base.

On the wholesale side, efforts were targeted at maintaining a stable and competitive presence in the market, with management focusing on improving the Company's share in strategic products and sectors and reaping the best returns from this business.

As regards Quality, CEPSA now has 8 companies that have obtained "Qualicert" certification for recognized outstanding service quality in Direct Sales, and in environmental protection initiatives, work continued towards gradually introducing artificial wetlands for purifying waste waters into the Company's service stations.

In the area of sporting event sponsorships, CEPSA's team, led by its driver, Antonio Albacete, once again came out on top in the FIA European Truck Racing Championship, winning the number one spot for the second year in a row.

In recognition of its marketing achievements, CEPSA won a number of prizes in 2006, noteworthy among which was the "JOHN CAPLES INTERNATIONAL AWARD", distinguishing the direct marketing campaign for the Company's heater replacement plan; two "IMAN" awards from the Spanish Federation of E-Commerce and Direct Marketing - gold for the best customer acquisition scheme and silver in the category of consumer services; and the gold prize in the ECHO AWARDS from the Direct Marketing Association, which honors both the creativity and results of advertising campaigns.

BIOFUELS

CEPSA seeks to play an active role in supporting European Union and Spanish Government objectives to foster the development of biofuels in the transportation sector.

In 2006, around 125,000 m^3 of ETBE were blended into gasoline, equivalent to a 2.1% bioethanol volume, and as of October, CEPSA started retailing automotive diesel B10, with a 10% biodiesel content.

BUNKER FUELS

CEPSA sold over 7 million tons of bunker fuels in 2006, 3% more than the previous year, once again consolidating its position as the leading bunker fuel supplier in Spain, particularly in the fishing and coastal trade markets. The Company also gained ground and strengthened its commercial performance in the Panama Canal, where it delivered more than 600,000 tons.

CEPSA MARINE FUELS (CMF), a subsidiary created from the spin-off of CEPSA's international bunkering activities to capitalize on growth opportunities in the global marine fuel supply business, sold nearly 6 million tons and is positioning itself for further growth in sales by expanding the number of Mediterranean ports where it operates.

Work advanced during the year to adapt CEPSA's logistics to Annex VI of MARPOL 73/78 (International Convention on the Prevention of Air Pollution from Ships) drawn up by the International Maritime Organization (IMO) and to the revised EU Marine Fuel Directive, both of which restrict the sulfur content in fuel oils. As a result, CEPSA has been supplying LSFO (low-sulfur fuel oils) in most areas where it conducts its business, and in particular at the ports of Algeciras, Tenerife and Barcelona.

In meeting its goal to comply with the most rigorous environmental standards, CEPSA is currently upgrading its barge fleet to fulfill European double-hull requirements, which will become effective January 1, 2008.

AVIATION FUELS

In 2006, sales to civil and military aviation, as well as on foreign markets, topped 2.7 million tons, climbing 3% from the previous year.

Some highlights of the year include the start-up of activities by the recently-created Spanish Intoplane Services (SIS), a 50/50 joint venture between CEPSA and SHELL, in Madrid, and aircraft refueling operations in the La Gomera (Canary Islands) airport by the subsidiary CEPSA AVIACIÓN.

As regards quality, the Aviation Department obtained ISO 9001:2000 certification in the year for its jet fuel sales.

ASPHALT

CEPSA produces asphalt at its Tenerife and La Rábida refineries, as well as in ASESA's refinery in Tarragona, with a total nameplate 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 terminals, where asphalt derivatives and other special products for the construction sector are likewise manufactured.

In 2006, PROAS acquired over 1.14 million tons of this product, 500,000 tons of which were from the ASESA Refinery and the rest from CEPSA's wholly-owned refineries.

Sales revenues surged 23% from the previous year. Out of these sales, 71% were made on the domestic market and 29% on foreign markets, with a notable increase in exports to North and West Africa.

Capital expenditures in 2006, amounting to over 1.5 million euros, were primarily assigned towards the new Styrelf manufacturing facility at the Tarragona terminal and to productivity, energy saving, safety and environmental initiatives. Moreover, the Alcudia terminal achieved ISO -14001 certification for its Environmental Protection Management System.

Other noteworthy developments in the year include the project to build a multiproduct plant, which will enable boosting production of modified bitumen, and the storage capacity expansion at the Tarragona terminal.

LUBRICANTS

LUBRISUR, a wholly-owned subsidiary, has a base stock and paraffin manufacturing plant and a blending and bottling facility where finished lubricants are produced and bottled. These plants, located in the Algeciras (Cádiz) area, are where lube-related industrial activities were concentrated, following the closure of the plant at the La Rábida Refinery.

During the year, 222,000 tons of base stocks and 28,000 tons of paraffin wax were produced, up 12.6% and 24.2% from last year's levels.

Paraffin retailing is carried out by LUBRISUR, whereas base stock and finished lubricants are sold by the 100% affiliate CEPSA LUBRICANTES, as well as ATLÁNTICO, LUBRITURIA, LUBRINER, and PETROJAÉN, companies in which CEPSA LUBRICANTES holds a full or majority stake.

CEPSA LUBRICANTES, which distributes these products under the brand names CEPSA and ERTOIL, continued being one of the leading companies on the Spanish Peninsula and Balearic Islands market, with over 57% of total product sales earmarked for the domestic market,and the rest to export markets.

Aggregate sales of lubricants, base stocks, paraffin wax, greases and other accessory products totaled 304,000 tons in 2006, rising 18,000 tons from a year earlier. Consolidated sales revenues amounted to 334 million euros, soaring 43.5% from 2005's figures.

Capital spending in the year, at 5.6 million euros, was essentially assigned towards developing the area's strategic plan, namely deploying innovative, cutting-edge technologies, enhancing productivity in industrial operations and supporting marketing performance.

In 2006, 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. LUBRISUR was also awarded quality certification by the Spanish Defense Ministry, for its fulfillment of new AQAP 2120 specifications.

LIQUEFIED PETROLEUM GAS

CEPSA markets the Group's liquefied petroleum gas through its wholly-owned subsidiary CEPSA GAS LICUADO, which owns 12 storage and decanting facilities nationwide; 8 of these sites bottle the 12.5 kg. butane canisters, 11 and 35 kg propane containers and the 12 kg. automotive LPG containers.

Bottled propane and butane are now sold in 12 of Spain's autonomous communities, where CEPSA GAS LICUADO has an average market share of over 20%. As regards the entire domestic market, its share comes to more than 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 1,800 outlets, over 750 of which belong to CEPSA's service station network.

CEPSA GAS LICUADO, which sold more than 286,000 tons of propane and butane in 2006, currently has over 2 million customers for bottled LPG. The Company also supplies bulk propane to over 6,900 individual installations and piped propane to an additional 1,800 centralized facilities, connected to more than 42,000 residential customers.

Highlights of 2006 include the expansion of filling lines, upgrading of existing bottling infrastructures, and capital spending plans aimed at improving quality and safety performance in all activities of the Company.

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 nearly 1 million tons in 2006.

By the end of the year, CEPSA's Portuguese retail network numbered 168 service stations, 3 of which began operating in 2006. Motor fuel sales amounted to approximately 700 million liters, accounting for a market share of over 8%. In other products, sales totaled 105,000 tons of fuel oils, 170,000 tons of bitumen, 43,000 tons of bunker fuel and an overall figure of more than 10,000 tons of lubricants and bulk propane combined.

Expenditures in 2006 stood at 3.2 million euros, approximately 2.8 million of which were assigned towards expanding and upgrading the retail network.

CEPSA IN MOROCCO

CEPSA continued to pursue its commercial activities in Morocco through PETROSUD, in the Port of Agadir, where it owns and operates a storage depot that supplied roughly 27,000 cubic meters of fishing diesel to both the deep-sea and coastal fishing sector in 2006, climbing 4% from the previous year and achieving a market share of around 20%.

In addition, CEPSA directly supplies a variety of petroleum products -mainly gasoline, diesel fuels, kerosene and liquefied petroleum gas- to Moroccan operators, delivering a total of 300,000 tons in the year.

BASIC CHEMICALS

CEPSA produced nearly 1.3 million tons of basic chemical components (primarily propylene, cyclohexane, solvents, and BTX - benzene, toluene and xylene) at its Gibraltar-San Roque and La Rábida refineries, 4% more than the year before.

In an operating environment characterized by sharply volatile and rising prices and leveled demand on the markets where the Company operates, CEPSA sold over 1.5 million basic chemical products, up 5% from the previous year's levels.

Out of this amount, 40% was assigned to CEPSA's subsidiaries that produce and sell petrochemical intermediates, while the rest was sold on both the domestic market, in line with 2005's figures, and export markets, where sales surged 13% year-on-year.

The wholly-owned affiliate CEPSA ITALIA expanded its product range, with a 14% increase in sales from the previous year, following the start-up of the tanks belonging to "DEPOSITI COSTIERI DEL TIRRENO", in which the Company holds a 50% stake.

CEPSA U.K., a 100%-owned subsidiary operating in the United Kingdom, distributed over 81,000 tons of basic chemical products in this country, up 10% from the previous year.

REFINING, MARKETING & BASIC CHEMICALS	2006	2005
Oil and basic chemical product sales (millions of tons)	27	26
Capital expenditures (millions of euros)	340	368
Operating income (millions of euros)	631	698

PETROCHEMICAL INTERMEDIATES

CEPSA is a key player in the global petrochemicals sector, producing both basic and aromatics-based intermediate petrochemicals. The Company's high level of integration between refining operations and chemical production enable it to maximize synergies and capture significant cost efficiencies.

Furthermore, CEPSA's subsidiaries engaged in producing and selling petrochemical intermediates partly rely on proprietary technologies, which afford them a unique competitive advantage in driving profitability in the value chain.

The CEPSA Group has petrochemical manufacturing facilities in Spain, Canada and Brazil, as well as storage facilities, logistical infrastructures and sales offices in the UK, Netherlands and Italy, with output sold on all five continents across the globe.

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 or co-leadership positions in various niche products.

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 has a production facility, the world's largest of its kind, 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).

Since 1999, PETRESA also holds a 72% controlling interest 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 2006, PETRESA continued its co-operative efforts with the Slovakian chemical company PETROCHEMA, A.S., the French company IFRACHEM and the Germany company ISU CHEMICAL to produce sulphonic acid earmarked for Central European markets. PETRESA is also developing joint business projects with INCHEMICA in Portugal and Industrial Chemical Company (ICC) in Jamaica, through which it has broadened 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 of over 17%.

Petrochemical market conditions in the year were impacted by a persistent upsurge in LAB feedstock prices, which could not be fully passed along to end prices. In order to deal with some of the challenges posed by the current business cycle, CEPSA embarked on a strategy in 2005 to seek out more attractive markets, a target which it continued to consolidate in 2006, enabling it to achieve a sales volume in line with the previous year's figures. As regards production, the PETRESA Group had a total output of 867,000 tons, similar to the year before.

During 2006, nearly 2 million euros were allocated chiefly towards quality, safety and environmental initiatives, with the Company maintaining all of its certifications and accreditations in these areas. Among the year's milestones, noteworthy was that:

- A variety of energy-efficiency projects were put into place in PETRESA, harnessing annual savings estimated to be over 1 million euros. The Company likewise obtained "Integrated Environmental Authorization" from the regional government of Andalusia, as part of a recent administrative feature under the new Spanish Bill on Integrated Pollution Prevention and Control (IPPC).

- PETRESA CANADA INC. also pursued a number of energy-saving projects as well as Greenhouse Gas (GHG) emission reduction schemes, having reduced its CO_2 emissions by 9% from the previous year.

- DETEN was awarded the prestigious "Excellence" prize, achieving the highest score, in the "Premio Polo de Segurança, Saude, Higiene y Medio 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, being the only enterprise that achieved this distinction among 50 global industry leaders.

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 production facilities, located in San Roque (Cádiz) made efforts to tailor its output to market demand in the year, counterbalancing the decline in PTA production with a rise in PIA production, where consumption continues to be strong.

During the year, this plant sold nearly 685,000 tons of its products, slightly higher than the year before expressed in tons equivalent of PTA. As for the sales breakdown, 84% was sold on European Union markets (48% domestic, 36% to other countries) and the rest on foreign markets, primarily, as has been a recent trend, in Turkey.

Capital expenditures in the San Roque plant exceeded 6 million euros, basically earmarked towards optimizing the plant's efficiency and safety, enhancing environmental performance and ensuring top 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. This site also aligned its output to market demand, attaining a sales volume of 437,000 tons, mostly on the North American market.

Capital spending in 2006, totaling 3 million euros, was targeted towards improving the plant's operational safety and technical efficiency, and vigilantly 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 the pharmaceutical industry, and for making phenolic resins, new-generation plastics, synthetic fibers and solvents.

Aggregate output of phenol and acetone came to over 550,000 tons in 2006, similar to last year's levels.

In an operating environment characterized by firm phenol and slightly weaker acetone demand, ERTISA sold a total of 790,000 tons, up 53,000 tons, or 7%, from the previous year. Out of this total, sales on the domestic market climbed 25% from the previous year, whereas exports, basically to European and Asian markets, remained steady.

Progress was made during the year on the project to undertake a broad-based expansion of ERTISA's cumene, phenol and acetone manufacturing capacities, which will be raised by 300,000, 250,000 and 155,000 tons per year, respectively. These new facilities are expected to come on line in early 2007.

PETROCHEMICAL INTERMEDIATES	2006	2005
Sales of petrochemical intermediates (millions of tons)	2.4	2.4
Capital expenditures (millions of euros)	121	77
Operating income (millions of euros)	54	118

HUMAN RESOURCES

At December 31, 2006, 2,869 people were working in the parent company CEPSA. Including majority-owned subsidiaries of the Group, the workforce numbered 11,096 people, with the median age and years of service being 40.81 and 12.42, respectively. Compared to the previous year, there was a net increase in the CEPSA Group of 313 employees, largely attributable to growth in 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 combination of education, experience and skills to accomplish the corporate mission and objectives, and that its organization and business strategies are soundly aligned, in a labor environment that strives to build common ground and open and ongoing communication 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 response to management's forward-looking plans and forecasts. Likewise, it oversees and evaluates compensation and benefits schemes that are designed to attract, develop, motivate and retain talented and committed employees.

At the same time, HR policies at CEPSA are aimed at encouraging workers to 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. Nonetheless, 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 mostly work continuous shifts.

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

One of CEPSA's priorities is making sure 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, particularly as regards safety, quality and environmental protection.

Accordingly, over 467,000 instruction hours were given in the year, nearly 80% in-house, focusing particularly on the following programs: ongoing training on technical know-how and expertise in production facilities; continuation of the refining & petrochemical operations program; safety, quality and occupational risk prevention awareness; executive leadership development and coaching; sales training to provide the right tools, knowledge and abilities as a key differentiator in this activity; C-store management training for DEPASO shops in the retail network; e-learning methodologies as part of the Company's focus on harnessing the possibilities offered by new technologies; online and in-situ training for new recruits; Web-Based Training (WBT) initiatives and resources; and training programs for current and potential service station managers.

In fulfillment of 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 assets amounted to over 278 million euros at the end of 2006.

PROPERTY ASSETS

In 2006, construction work began on CEPSA's new Research Center, in the Science & Technology Park adjacent to the University of Alcalá de Henares, which is expected to start up in the second half of 2008. CEPSA received partial funding for this

project from Spain's Ministry of Education and Science.

Other developments in this area include the agreements that were successfully reached to sell properties belonging to the Gibraltar-San Roque and La Rábida Refineries to two biofuel companies, as well as the petition made to the local governments concerned regarding urban development plans affecting the Gibraltar-San Roque and Tenerife Refineries, requesting that they be afforded consideration, given their long history and contribution to the prosperity and welfare of the respective communities where they operate.

TREASURY AND FINANCES

Consistent with its financial management strategies and using a disciplined approach, the CEPSA Group has implemented policies aimed at upholding a strong balance sheet, securing required liquidity and aligning available funds to capital spending requirements, maintaining positive working capital at all times.

Cash flow from CEPSA's operating activities in 2006 totaled 1,180 million euros. Out of these funds, 346 million euros were used to pay out dividends; 494 million euros to finance capital expenditures, mainly in new plants and production facilities; 224 million euros for financial flows; and 159 million to increase operating working capital, basically as a result of higher inventory valuation on account of the upswing in crude oil and product prices.

At year-end, net financial debt amounted to 505 million euros, down 176 million or 25.8% from a year earlier. This improved leverage meant that the debt-to-equity ratio fell even further to 10.4% (versus 15.6% in 2005 and 27.4% in 2004).

Financing in foreign currencies, practically all in US$ and mostly tied to fixed investments that generate cash flow in this same currency (namely, crude oil fields in Algeria and petrochemical plants in Canada), accounted for 45% of the CEPSA Group's gross financial debt position (44.7% in 2005).

The average interest rate on outside financing came to 3.93% in 2006, up 1.14 points from the previous year, chiefly due to the increase in the US dollar LIBOR rate.

At the close of the year, the CEPSA Group had cash and cash equivalent balances of 326 million euros as well as interest-free credit limits available totaling 690 million euros, meaning that its liquidity amounted to over 1,000 million euros.

The aforementioned improved leverage, coupled with anticipated cash flow and capital resource levels, will enable the Company to readily meet its projected capital spending commitments from a sound financial position. In this regard, investments set out in CEPSA's strategic plan for 2007-2011 total over 5,000 million euros, basically aimed at increasing crude reserves, expanding productive facilities and upgrading the retail network, all of which are expected to strengthen and fuel earnings growth well into the future.

RESEARCH, DEVELOPMENT & TECHNOLOGY

Throughout the year, CEPSA's Technology Division continued to be a key driver of the Company's operating and technological performance, a strength that extends across all of its core businesses and offers a compelling advantage in a highly competitive and rapidly-changing business environment. The area focuses its activities on applied research, process and product development, project execution, engineering and technical services related to oil, gas and chemical products, innovations deployment and the designation of future projects. This division has also assumed the task of securing and managing government grants and funding for private sector investment schemes and R&D initiatives that CEPSA may be entitled to receive.

CEPSA's Research Center, certified by ENAC (Spain's national accreditation body) pursuant to ISO 17025 standards as an Oil Testing Laboratory, carried on with its work towards advancing the Company's reservoir of scientific and technical know-how and expertise. This Center partners with the Company's productive and commercial units in refining, petrochemicals and more recently, in exploration & production, in order to offer technical assistance and develop, profitably apply and upgrade technologies in industrial processes.

The Research Center is involved in a variety of projects in connection with the development and use of biofuels, collaborating with the Universities of Madrid (Complutense), Alcalá de Henares and Zaragoza, and with research entities such as ITQ and CIEMAT (Research Center for Energy, Environment and Technology, an agency operating under Spain's Ministry of Education and Science), in conducting a Biodiesel Life Cycle Analysis, contributing data from the Gibraltar-San Roque Refinery.

As regards Technology Development, this department played a decisive role in the project to expand middle distillates

production at the La Rábida Refinery, as well as in the study and selection of technologies for the deployment of a highly efficient hydrogen plant at the Gibraltar-San Roque Refinery, which will enable operating the current FCC feedstock pretreatment unit as a Mild Hydrocracker (MHC); and it provided oversight to the Technology Committee's activities, aimed at exploring new work proposals and production projects such as the relocation of paraffinic and low polyaromatic solvents production, a product line that will allow boosting the value of residual streams presently channeled to fuel oils.

In 2006, CEPSA's Engineering Department completed the project to build a light naphtha reformer (LNR) at the La Rábida Refinery and at the end of the year, a number of other projects were underway, noteworthy being the metaxylene recovery unit at the Gibraltar-San Roque Refinery, due to finalize in 2007, and the sulfur and vacuum units, whose mechanical completion is slated for 2008. Furthermore, it has actively taken part in the detailed engineering work for the middle distillates capacity expansion project at the La Rábida Refinery, in order to complete its development within the anticipated cost and time limits.

Overall, the Engineering Department supervised over 1,300,000 construction hours, with an accident frequency rate (total recordable lost workday injuries per 1 million hours worked) of 1.5 in 2006, sharply lower than the sector average. Nonetheless, 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, the implementation of which is mandatory in projects whose execution is headed by CEPSA.

At the corporate level, in 2006, the Engineering Department completed the review of the "CEPSA Group's Technical Specifications" and deployed a web-based "Documentum" system for the coordinated management of the CEPSA Group's documents.

As regards technology and manufacturing procurements, in addition to managing construction project awards and procurements, which is key in the case of the middle distillates capacity expansion at the La Rábida Refinery, 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 and measures: use of cleaner-burning fuels with a low or nil sulfur content, such as LSFO and natural gas, respectively; enhanced performance of the sulfur separation plants in the refining area; development of schemes and initiatives to lower/eliminate emissions from large-scale facilities of components such as NOx, benzene and heavy metals through retrofits to pump seals; removal of floating roofs for benzene tanks and other volatile organic compounds; and in general, the deployment of process enhancements to reduce pollutants at source while optimizing energy efficiency

In connection with greenhouse gas (GHG) emissions, planning processes and specific energy-saving and emission-reduction measures that the Company has been consistently pursuing led to a year-on-year decline in CEPSA's CO_2 emissions of 3%.

The Company continued its initiatives with regard to the assessment, monitoring and mitigation of diffuse emissions from large industrial plants, in order to accurately pinpoint their sources, and provide remedial measures to lessen or eliminate such sources, conforming to guidelines established by the US Environmental Protection Agency (EPA).

In addition, actions were taken to minimize the impacts from industrial discharges, both as regards surface as well as ground and coastal waters. Noteworthy in this connection was the adoption of measures aimed at optimizing surface water nitrification and de-nitrification processes, and the reduction/removal of point source contaminants, in order to lower influents to the waste treatment plant. As for coastal waters, enhancements were made in the control of effluents as well as the quality of receptor mediums. At the same time, improvements were introduced in the degree of reuse of treated waters at industrial plants, leading to reduced consumption of non-renewable sources and improved process efficiencies.

As regards groundwater, significant and far-reaching efforts are being made to undertake the preliminary studies of the status of all of CEPSA's facilities that are subject to Royal Decree 9/2005, as well as the extension of piezometer networks in most of the Company's industrial plants.

Similarly, CEPSA continued actively working on all plants and centers in connection with the segregation, minimization and reuse/recycling of wastes, as well as their assessment, particularly hydrocarbon/water emulsions at the Gibraltar-San Roque and La Rábida Refineries.

Regarding accidental marine pollution risks, in-house contingency plans for the refineries were revised and updated; detection and alarm systems for hydrocarbons spills at sea, mainly using floating and submerged hose systems, were introduced at the single-buoy mooring facilities; an audited emergency drill plan was started at CEPSA's maritime terminals; and a specific training program is underway for operators, technicians, engineers and management personnel assigned to marine pollution prevention, response and clean-up tasks during hydrocarbon loading, offloading and handling operations at sea and port areas, in compliance with regulations in force. During the year, CEPSA recorded no accidents or incidents having adverse environmental impacts.

In the area of occupational health and safety, CEPSA voluntarily submitted its 3 refineries plus the industrial facilities of PETRESA, PETRESA CANADA INC., INTERQUISA and ERTISA to an audit of their occupational risk prevention systems, in compliance with international OHSAS 18001 standards, in addition to the terminals belonging to CEPSA GAS LICUADO, CEPSA AVIACIÓN, CMD AEROPUERTOS CANARIOS, ATLAS and CEPSA PORTUGUESA. As a result of this initiative, the aforementioned centers were awarded 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 emergency response actions, periodic drills were carried out in all work centers, and their results were subsequently reviewed and corrective actions and improvements, where applicable, were proposed and put into effect.

In connection with the transportation of hazardous materials, CEPSA continued to liaise with government agencies and authorities to propose possible improvements in public policy decisions and regulations. Furthermore, internal procedures regarding road and railway transportation were reviewed in a coordinated manner, in order to strengthen operational oversight and control and rigorously monitor contracted carrier services.

As regards Quality Management, in 2006, 4 new management systems were certified pursuant to ISO 9001:2000 standards, meaning that 35 of the CEPSA Group's business units and activity centers are now in possession of Quality Management System certifications, which cover all the

Company's major plants and well as other industrial and commercial activities. Within the category of an "Operational Unit of a Large Organization", the La Rábida Refinery was selected as a finalist in the 2006 European Excellence Award at the annual forum held by EFQM (European Foundation for Quality Management), which took place in Budapest.

INFORMATION TECHNOLOGY

During the year, CEPSA's IT division focused its attention on developing projects aimed at capturing greater efficiencies and cost savings in corporate IT services, with minimal investments delivering considerable enhancements in already-deployed software and infrastructures. Out of a total of 21 commissioned projects that are now operative, accumulated savings amounted to 27 million euros, and to over 6 million euros in 2006 alone.

Some of the plans and actions put into place during the year include the following:

- In the area of technology infrastructures, shared IT service centers were set up in Algeciras and Huelva, servicing the CEPSA Group companies in these locations, enabling greater optimization and cost effectiveness in human resources and available materials.

  Synergies and savings were mainly achieved through the consolidation of data processing centers, reduction of servers, establishment of framework agreements for hiring voice and data communications, implementation of common user support services, the optimization and unification of asset management (desktop, corporate e-mail, license contracting, etc.) and the expansion of companywide bandwidth communication networks throughout the Group's centers.

Noteworthy was the start-up of corporate software solutions for the management of virtual infrastructures and equipment at remote locations, and for project development, knowledge management and more efficient information access.

- In the Company's different business segments, progress was made in implementing integrated processes with carriers, suppliers and customers, using automated solutions and developed applications enabling online access to a variety of functions.

In wholesale operations, for example, the use of point-of-sale (POS) and mobile terminals in tank trucks makes it possible to convey real-time information on orders and supply transactions to customers; In Specialty products, capabilities have been added such as web-based applications for integrating gas and lubricant suppliers and

customers, including electronic billing; in Distribution, the extension of preprogrammed orders for the retail network has optimized services and logistical costs and provided greater flexibility and agility in these operations; in Commercial Planning and PROMIMER, the use of recent advances in technologies for creating large data warehouses and pioneering business intelligence solutions has led to better leveraging in the power of information by enabling improved access, analysis and action on corporate data; and in Petrochemicals, strides were made in extending the enterprise business solution application SAP R/3 for production management to ERTISA, PETRESA and INTERQUISA, so that all of these Group companies now use common and integrated software support for manufacturing-related activities, with the necessary functionalities and capabilities for cost and profit controlling activities, thereby improving bottom-line performance.

- In the Corporate Area, major inroads were made in the deployment of optimized processes and software solutions, particularly as related to Administration, Procurements and Human Resources.

  Noteworthy in this regard was the continued development of electronic invoicing and self-billing applications for use with suppliers and distributors, offering a wide range of options and capabilities. Furthermore, the unification of HR management systems (time and attendance record keeping, employee administration systems, etc.) in all of the CEPSA Group's business units has made it possible to automate employee-related processes, developing optimized workflows. Additionally, the corporate document management platform was extended to various departments (Organization and Audits, Legal Affairs, Distribution, Exploration & Production, etc.).

CEPSA AND COMMUNITY INVOLVEMENT

CEPSA is staunchly committed to building and developing stable and prosperous communities in areas where the Company operates and its support takes on many forms, one of which is educational funding and training, regarded as a pivotal springboard for achieving long-term social improvements. Accordingly, the Company sponsored a variety of courses and seminars, such as the "International Fall Courses" held at the University of Cádiz, and the "Industrial Tourism" course at the International University of Andalusia.

To raise awareness among young people on the need to care for and respect the

environment, CEPSA helped organize a campaign for students on Social Responsibility, called "It's Time for Sustainable Development", in which over 10,000 students belonging to 70 schools on the island of Tenerife took part since its start-up in the 2004-2005 academic year. The Company also sponsored the environmental education program at DETEN QUÍMICA in Brazil, with the participation of 7,650 people.

As part of its contributions to public and social services and programs to serve and strengthen local communities, the Gibraltar-San Roque Refinery helped build both a nursery school and daycare center in Puente Mayorga (San Roque, Cádiz) and the La Rábida Refinery assembled the second edition of CEPSA's Social Value Prizes, aimed at supporting associations, institutions and NGO's that work with the most disadvantaged sectors of the population in the province of Huelva.

CEPSA's efforts to advance cultural awareness included a number of projects in 2006 such as the publication of books, reports and yearbooks, as well as the sponsorship of a number of artistic events. The Company also continued its initiatives to preserve Spain's rich artistic and historical legacy through its longstanding support and involvement in the excavations to recover and restore the Roman ruins of the ancient city of Carteia near the Gibraltar-San Roque Refinery, and its funding to restore ten 18th century paintings at the La Rábida Monastery.

Consistent with its goal of being 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 "2005 Sustainability Report" in the year, which maintained its "In Accordance" status awarded by the Global Reporting Initiative (GRI), and was verified by an independent auditing firm.

As regards the world of sports, CEPSA promotes a wide variety of programs in soccer, volleyball, roller hockey, basketball, mountain biking, fencing, Canarian wrestling, sailing, track and field and rowing. CEPSA agreed to sponsor the ADOP Plan (Paralympic sport support plan) that will continue over the next two years.

In the world of advertising, the Company is a member of the Governing Board of the Spanish Broadcasters' Association, as well its Media and Self-Regulation Committee. In this arena, advertising and publicity campaign efforts were made to increase public perception of CEPSA as a caring company that is responsive to its customer needs. For the second year in a row, CEPSA continued with its successfully launched on-line contest called "Historias CEPSA" ("CEPSA

Stories"), where the grand prize winner was able to see his story turned into a TV commercial. Likewise, at the end of 2006, the Global Mobile Marketing Association (MMA) held its annual awards ceremony in the United States to honor leaders and innovators in the global mobile marketing industry, with CEPSA's 2005 corporate advertising campaign winning top place in the category of "Innovation for Creativity in Technology".

As regards leading forums and institutions, CEPSA 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 both Chairmanships. The Company similarly supports the development of the Spanish energy sector, with its membership in the Hydrocarbons Advisory Council of the National Energy Commission (CNE), the Spanish Confederation of Employers (CEOE) and the Confederation of Andalusian Employers (CEA), as well as its membership on the Board of Trustees of the Technological Corporation of Andalusia. CEPSA is also actively involved in the Spanish Energy Club (ENERCLUB), which it presided until June 2006, and which acts as a forum for exchanging ideas and information on the energy sector.

Additionally, CEPSA is an active member and sponsor of events and meetings planned and organized by the Spanish Committee of the World Energy Council (WEC), whose mission is to promote the sustainable supply and use of energy; and the Company is also a member of the Energy Foundation of the Autonomous Community of Madrid, since its creation in June 2006, as well as the Board of Trustees of the Complutense Institute for International Studies and the Elcano Royal Institute for Global and Strategic Studies, a leading international think tank on global issues.

As regards the World Petroleum Council (WPC), CEPSA holds the office of Vice-Chairmanship of the body entrusted with the task of organizing and hosting the 19th World Petroleum Congress in Madrid in 2008.

CEPSA is also proactively involved in a number of European forums and organizations such as EUROPIA (The European Oil and Petrochemicals Industry Association), where it holds the office of Vice-Chairmanship; APPE (Association of Petrochemicals Producers in Europe); CONCAWE (Conservation of Clean Air and Water in Europe – the oil companies' European organization for environment, health and safety); the European Petrochemical Association (EPCA); and other global agencies such as the International Air Transport Association (IATA).

CEPSA AND THE STOCK MARKET

The fully issued and paid-up share capital of Compañía Española de Petróleos, S.A. amounts to 267,574,941 euros, divided into 267,574,941 ordinary bearer shares with a par value of one (1) euro each, recorded as book entries.

All 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 1.595065%, 7.234553% and 23.859009%, respectively.

In 2006, CEPSA's shares traded within a range of 62.35 – 38.56 euros, with the year-end share price coming to 59.40 euros, surging 20.75 euros, or 53.7%, from a year earlier. At the close of the year, CEPSA's market capitalization came to 15,894 million euros, climbing 5,552 million euros from 2005.

A total volume of 39.7 million CEPSA shares were traded on the market in 2006, equivalent to 14.8% of the Company's share capital and with a market value of 1,494 million euros. Shares were traded on all sessions, with 100% liquidity.

The expected dividend distribution to shareholders on 2006 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, out of which an interim dividend of 0.55 euros was already paid out on October 25, 2006.

This total dividend proposal represents a payout ratio of 43% of consolidated income attributable to CEPSA calculated at LIFO (versus 40% in 2005) and, compared to the average price in 2006, means a yield of 2.29%.

Total Shareholder Return (TSR), calculated as the sum of dividends actually paid out in 2006 together with the change recorded in the share price between the opening and closing date of the year, came to 22 euros, equivalent to a return of 56.9%. The P/E (Price/Earnings) ratio, on a consolidated basis and using the year's average share price, came to 17.9, similar to the average ratio recorded for the large-cap company shares making up the Spanish blue-chip index, "IBEX 35".

	2006	2005	2004	2003	2002
Share Price (euros per share)					
High	62.35	46.75	30.90	28.68	19.14
Low	38.56	29.31	25.50	17.10	12.43
Average	54.47	37.43	28.37	25.67	16.58
Year-end	59.40	38.65	29.70	27.50	17.39
Trading Volume					
Number of shares (millions)	39.7(1)	19.2	8.80	91.3(2)	53.2
Market value (millions of euros)	1,494.5(1)	718.8	249.4	2,349.5(2)	883.7
Stock Market Ratios					
Dividend Yield (%)	2.29	3.34	3.52	3.70	4.16
Price/Earnings (P/E) Ratio	17.96	9.91	11.10	11.22	9.63

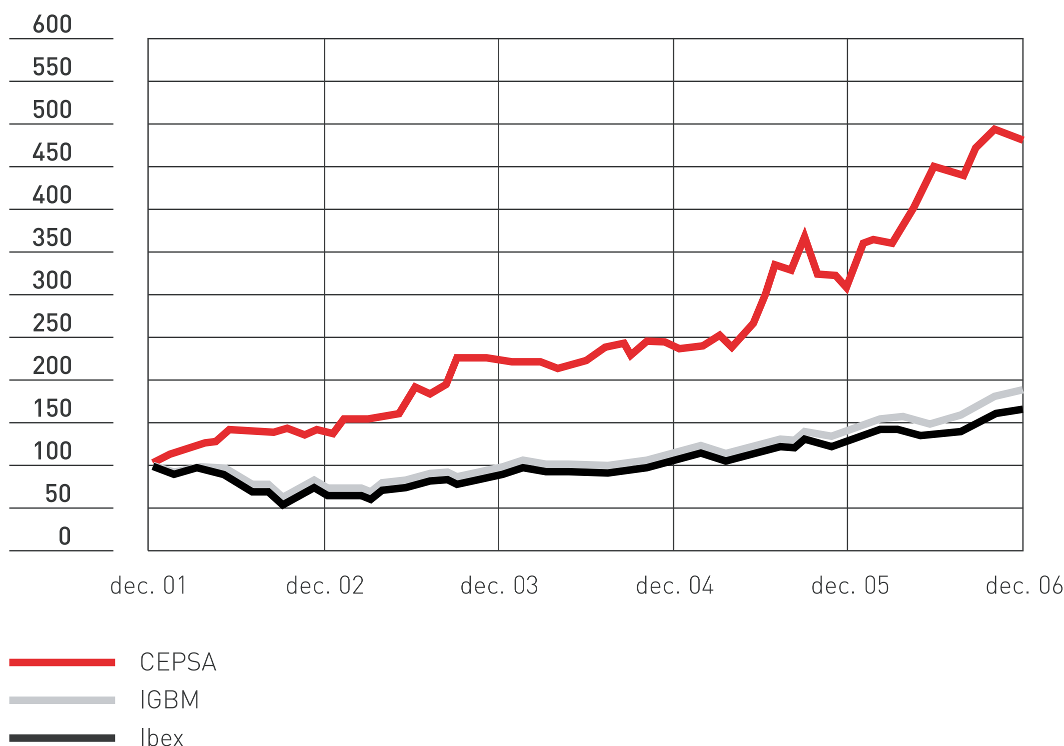
(1) Includes Elf Aquitaine's acquisition of 11,650,893 shares, equivalent to 4.35% of CEPSA's share capital, from Banco Santander Central Hispano, as provided for in the partial award of March 24, 2006, by the Netherlands Arbitration Institute (NAI) to settle the arbitration proceedings between Total and Banco Santander, which were terminated during the year.

(2) 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.

CEPSA's Annual General Meeting of Shareholders held on June 23, 2006, authorized the Board of Directors, subject to legal provisions, to increase the share capital of the Company, once or several times, within a 5-year limit, up to a maximum of 133.8 million euros (50% of the share capital at said date), by new cash contributions, through the issue of new voting or non-voting shares, with or without a share premium. The Board of Directors had not used this authorization at December 31, 2006.

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 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, 2006. Likewise, CEPSA did not have any outstanding bond issues at this date.

STOCK MARKET INDEX TRENDS



On March 24, 2006, the Netherlands Arbitration Institute (NAI) based in The Hague, rendered a partial award to settle the arbitration proceedings filed by TOTAL (or its affiliates, ELF AQUITAINE and ODIVAL) against BANCO SANTANDER CENTRAL HISPANO (or its affiliate, RIYAL), thereby nullifying the shareholders' agreements between both companies concerning CEPSA. On August 2, 2006, the two companies resolved to terminate all of the agreements that were in effect at that date in connection with CEPSA, as well as to rescind the interim measures contained in the aforesaid arbitration award; once the transfer of 4.35% of CEPSA's share capital from SCH to ELF AQUITAINE was completed – a transaction conducted in the month of October 2006 – both parties instructed the arbitrators to terminate the abovementioned arbitration proceedings.

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REPORT FROM INDEPENDENT AUDITORS

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.
AND SUBSIDIARY COMPANIES (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 33). 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.:

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 2006 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 policies applied and of the estimates made.

As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2006 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2005. Our opinion refers only to the consolidated financial statements for 2006. On 31 March 2006, we issued our auditors' report on the 2005 consolidated financial statements, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated financial statements for 2006 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 2006 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 of the preceding year.

The accompanying consolidated directors' report for 2006 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 consolidated directors' report is consistent with that contained in the consolidated financial statements for 2006. 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.

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Eduardo Sanz Hernández

March 26, 2007

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414.
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Member of
Deloitte Touche Tohmatsu

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

At 31 December 2006 and 2005 (Notes 1, 2 and 3)

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

ASSETS	2006	2005
		Thousands of euros
Non-current assets		
Intangible assets (Note 4)		
Intangible assets and rights	552,217	431,396
Impairment losses and amortisation charge	(368,144)	(249,624)
Total intangible assets	**184,073**	**181,772**
Goodwill (Note 5))	37,883	38,083
Property, plant and equipment (Note 6)		
Tangible assets and rights	7,591,417	7,143,773
Impairment losses and depreciation charge	(3,755,632)	(3,438,956)
Total property, plant and equipment	**3,835,785**	**3,704,817**
Investments accounted for using the equity method (Note 7)	147,970	108,479
Non-current financial assets (Note 8)	158,888	105,201
Deferred tax assets (Note 14)	100,691	125,365
TOTAL NON-CURRENT ASSETS	4,465,290	4,263,717
Current assets		
Inventories (Note 9)	1,591,075	1,438,500
Trade and other receivables (Note 10)	2,250,716	2,224,818
Other current financial assets (Note 8)	67,171	139,033
Other current assets	12,677	31,254
Cash and cash equivalents (Note 11)	325,922	371,349
CURRENT ASSETS, SUBTOTAL	4,247,561	4,204,954
Non-current assets classified as held for sale and for discontinued operations (Note 29)	10,869	5,680
TOTAL CURRENT ASSETS	4,258,430	4,210,634
TOTAL ASSETS	8,723,720	8,474,351

(The accompanying Notes 1 to 33 are an integral part of these consolidated balance sheets)

EQUITY AND LIABILITIES	2006	2005
		Thousands of euros
Equity (Note 12)		
Share capital	267,575	267,575
Share premium	338,728	338,728
Revaluation reserve	90,936	90,936
Translation differences	27,111	41,539
Retained earnings	3,303,745	2,626,886
Reserve for fair value accounting of assets and liabilities	86,074	80,795
Profit attributable to the Parent	811,656	1,010,272
Interim dividend paid	(147,166)	(147,166)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**4,778,659**	**4,309,565**
Minority interests (Note 12-f)		
Equity attributed to minority interests	45,288	53,484
Profit attributed to minority interests	13,899	11,017
Total minority interests	**59,187**	**64,501**
TOTAL EQUITY	**4,837,846**	**4,374,066**
Non-current liabilities		
Bank borrowings (Note 13)	442,363	667,075
Other financial liabilities (Note 13)	140,712	129,772
Deferred tax liabilities (Note 14)	286,099	295,256
Grants related to assets (Note 15)	62,483	67,406
Provisions (Notes 16 and 17)	252,059	251,695
Other non-current liabilities (Note 18)	172,672	154,673
TOTAL NON-CURRENT LIABILITIES	**1,356,388**	**1,565,877**
Current liabilities		
Bank borrowings (Note 13)	284,333	312,948
Other financial liabilities (Note 13)	25,545	30,762
Trade and other payables (Note 18)	2,109,379	2,096,185
Current income tax liabilities	83,990	67,807
Other current liabilities	26,239	26,706
TOTAL CURRENT LIABILITIES	**2,529,486**	**2,534,408**
TOTAL EQUITY AND LIABILITIES	**8,723,720**	**8,474,351**

(The accompanying Notes 1 to 33 are an integral part of these consolidated balance sheets)

CONSOLIDATED INCOME STATEMENTS

for the years ended 31 December 2006 and 2005 (Notes 1, 2 and 3)

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

Thousands of euros

	2006	2005
Income:		
Sales and services relating to ordinary activity	18,474,097	16,187,824
Excise tax on oil and gas charged on sales	2,233,069	2,181,984
Revenue (Notes 3-o and 25)	**20,707,166**	**18,369,808**
Increase in inventories of finished goods and work in progress	98,978	186,358
Other operating income (Note 25)	176,118	92,023
	20,982,262	**18,648,189**
Expenses:		
Procurements (Note 25)	(14,790,404)	(12,452,322)
Decrease in inventories of finished goods and work in progress	-	-
Staff costs (Note 25)	(476,878)	(441,419)
Changes in operating allowances	(89,644)	29,809
Other operating expenses:		
Excise tax on oil and gas	(2,238,279)	(2,183,829)
Other expenses (Note 25)	(1,721,389)	(1,672,608)
Depreciation and amortisation charge and impairment losses	(512,610)	(399,922)
	(19,829,204)	**(17,120,291)**
PROFIT FROM OPERATIONS (Note 24)	**1,153,058**	**1,527,898**
Other non-operating income and expenses (Note 27)	(12)	(15,608)
Share in profit of companies accounted for using the equity method (Note 7)	61,241	31,177
Finance income (Note 28)	46,698	37,246
Finance costs (Note 28)	(70,841)	(62,915)
CONSOLIDATED PROFIT BEFORE TAX	**1,190,144**	**1,517,798**
Income tax (Notes 3-n and 14)	(384,777)	(496,192)
CONSOLIDATED PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**805,367**	**1,021,606**
Profit (Loss) for the year from discontinued operations (Note 29)	20,188	(317)
CONSOLIDATED PROFIT FOR THE YEAR	**825,555**	**1,021,289**
Attributable to:		
Shareholders of the Parent	**811,656**	**1,010,272**
Minority interests	**13,899**	**11,017**
Earnings per share (Note 30):		
Basic	**2.96**	**3.78**
Diluted	**2.96**	**3.78**

(The accompanying Notes 1 to 33 are an integral part of the consolidated income statements)

CONSOLIDATED CASH FLOW STATEMENTS

for the years ended 31 December 2006 and 2005

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

	2006	2005
		Thousands of euros
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	825,555	1,021,289
Depreciation and amortisation charge and impairment losses	512,894	401,824
Changes in provisions for contingencies and expenses	38,735	63,492
Grants related to assets and other deferred income recognised in the income statement	(143,988)	(51,911)
Changes in deferred taxes	18,307	79,238
Loss on disposal of non-current assets	1,344	1,205
Other changes	(73,274)	(35,571)
Cash flows from operating activities before change in operating working capital	**1,179,573**	**1,479,566**
Change in operating working capital	**(159,334)**	**(458,639)**
Total cash flows from operating activities (a)	**1,020,239**	**1,020,927**
CASH FLOWS FROM INVESTING ACTIVITIES		
PAYMENTS		
Intangible assets	(30,704)	(32,646)
Property, plant and equipment	(466,495)	(358,017)
Financial assets		
Associates and other investments	(6,130)	(1,560)
Other financial assets	(46,551)	(21,973)
Grants received	2,091	226
Total payments	**(547,789)**	**(413,970)**
COLLECTIONS:		
Intangible assets	1,339	96
Property, plant and equipment	18,318	18,733
Financial assets	34,145	35,417
Total collections	**53,802**	**54,246**
Total cash used in investing activities	**(493,987)**	**(359,724)**
CASH FLOWS FROM FINANCING ACTIVITIES		
DIVIDENDS PAID:		
To shareholders of the Parent	(334,469)	(302,360)
To minority interests	(11,534)	(6,501)
Total dividends paid	**(346,003)**	**(308,861)**
Net decrease in non-current financial liabilities	(189,743)	(68,835)
Net increase in current financial liabilities	34,106	29,740
Finance lease payments	(67,938)	(57,437)
Total cash flows from bank borrowings	**(223,575)**	**(96,532)**
Total cash used in financing activities	**(569,578)**	**(405,393)**
Net increase in cash and cash equivalents	**(43,326)**	**255,810**
Adjustments due to changes in the scope of consolidation	41	-
Effect of exchange rate changes	(1,916)	14,909
Cash and cash equivalents at beginning of year	**371,123**	**100,404**
Cash and cash equivalents at end of year	**325,922**	**371,123**

(a) The net income tax payments in 2006 and 2005 amounted to EUR 353,077 and EUR 427,565 thousand, respectively.
The net interest payments for 2006 and 2005 amounted to EUR 12,643 thousand and EUR 13,660 thousand, respectively.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2006 and 2005

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

2005	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Translation Differences	Interim Dividend	Reserve for Fair Value Accounting Assets and Liabilities	Minority Interests	Total
									Thousands of euros
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	**-**	**-**	**-**	**-**	**44,036**	**-**	**(40,790)**	**5,767**	**9,013**
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**

2006	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Translation Differences	Interim Dividend	Reserve for Fair Value Accounting Assets and Liabilities	Minority Interests	Total
									Thousands of euros
Balance at 01/01/06	**267,575**	**338,728**	**90,936**	**3,637,158**	**41,539**	**(147,166)**	**80,795**	**64,501**	**4,374,066**
Profit for the year				**811,656**				**13,899**	**825,555**
Adjustments due to gains (losses) recognised directly in equity									
From asset revaluations				1,056					1,056
From cash flow hedges using loans							5,279		5,279
From translation differences					(14,428)			(1,012)	(15,440)
Total gains (losses) recognised directly in equity	**-**	**-**	**-**	**1,056**	**(14,428)**	**-**	**5,279**	**(1,012)**	**(9,105)**
Changes due to transactions with shareholders									
Sale of investments to minority interests								(6,667)	(6,667)
Gross dividend				(334,469)		147,166		(7,101)	(194,404)
Interim dividend						(147,166)		(4,433)	(151,599)
Total transactions with shareholders	**-**	**-**	**-**	**(334,469)**	**-**	**-**	**-**	**(18,201)**	**(352,670)**
Balance at 31/12/06	**267,575**	**338,728**	**90,936**	**4,115,401**	**27,111**	**(147,166)**	**86,074**	**59,187**	**4,837,846**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the years ended 31 December 2006 and 2005

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

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

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 2006.

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 2006 as adopted at that date by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, applicable at the balance sheet date.

These financial statements and the 2006 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 financial statements of CEPSA and the CEPSA Group for 2005 were approved by the shareholders at the Annual General Meeting in Madrid on 23 June 2006, without any changes.

At 31 December 2006, the CEPSA Group had not applied the following issued standards or interpretations, since they are mandatorily applicable from 2007:
- IFRS 7 Financial Instruments: Disclosures, applicable on or after 1 January 2007.
- Amendment of IAS 1 on the breakdown of information on the Company's objectives, policies and processes for managing capital, applicable on or after 1 January 2007.
- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, applicable to annual periods beginning on or after 1 March 2006.
- IFRIC 8 Scope of IFRS 2 (Share-based Payment) applicable to annual periods beginning on or after 1 May 2006.
- IFRIC 9 Reassessment of Embedded Derivatives, applicable to annual periods beginning on or after 1 June 2006.

According to its analysis of these standards and interpretations, Company management considers that the application thereof will not have a material effect on the financial statements.

b) Use of estimates and assumptions

The information in these financial statements is the responsibility of the Group's directors who expressly state that all the policies and methods included in the IFRSs have been applied.

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 determination of the recoverable amount for the calculation of the impairment losses on certain assets (see Notes 4, 5 and 6),
- The actuarial calculation of the post-employment benefit liabilities and obligations (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 2006 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 were 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 profit of the CEPSA Group's consolidated subsidiaries is detailed under "Equity - Minority Interests" in the consolidated balance sheets and "Profit Attributed to Minority Interests" in the consolidated income statement, respectively.

Jointly controlled entities were proportionately consolidated and, accordingly, the accompanying consolidated financial statements include the assets, liabilities, expenses and income of these companies only in proportion to the CEPSA Group's ownership interest in their capital.

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

Significant influence is generally deemed to be exercised over companies which are between 20% and 50% owned. In particular, although the ownership 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 present in its Board of Directors and there is a high volume of commercial operations between them.

Any excess of the acquisition cost 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 "Goodwill". Any deficiency of the acquisition cost of the consolidated subsidiaries below the fair value of their net assets is recognised in the consolidated income statement.

All material balances, transactions and results between the fully consolidated companies were eliminated on consolidation. The balances, income, expenses and results from transactions with proportionately consolidated companies were also eliminated based on the percentage of ownership. 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 measurement 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, of income and expenses at the average weighted exchange rates for the year and of equity at the historical 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 2006 were as follows:

COMPANY	Full/Proportionate Consolidation Method	Equity Method
Cepsa Egypt, S.A.	I	—
Ertisa USA	—	I
Etbe Huelva	I	—
GEMASA, Generación Mazagón, S.A.U.	E	—
Generación de Energías del Guadarranque, S.A (GEGSA).	E	—
GETESA, Generadora de Energía Termoeléctrica, S.A.	E	—
Medgaz	—	I

I= Inclusion; E= Exclusion

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

It should be noted in this connection that all the exclusions from the scope of consolidation in 2006 and 2005 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 amortised 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 2006-2007 and affects eleven industry sectors including the refining and electricity generation sectors.

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

The emission allowances are recognised as non-amortisable intangible assets, measured 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 measured 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.

In both cases, if their net realisable value is less than their carrying amount, the related impairment loss is recognised.

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 costs and investments in areas with unproven reserves:

Exploration costs are charged to income as incurred. Acquisitions of exploration rights are capitalised and feasibility analyses and impairment tests, if any, are performed periodically on a field-by-field basis based on the results of exploration (see Note 3-d). Exploration rights are amortised 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 (unit-of-production method) at the beginning of each year.

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

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 items of 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 the related legislation.

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 another structures	33 to 50
Plant and machinery:	
Machinery, installations and fixtures	10 to 15
Furniture	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 and an impairment loss is recognised as an expense, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When 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, and a reversal of an impairment loss is recognised as income.

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 with maturities at three to twelve months.

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

Non-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 2005 and 2006, 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. In 2004 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. During 2006 the negotiations for the disposal of its non-current assets were completed.

i) Grants

Grants related to assets are measured at fair value. Non-refundable 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 Assets-Greenhouse Gas 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:

- Generally, as the costs incurred on the actual emissions accrue (see Notes 15 and 25).
- If an impairment loss was recognised on the emission allowances received from the Government, as an adjustment to the initially recognised value (see Note 4).

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 obligation to the vested obligation 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 obligations 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 obligations 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 2006, 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, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The provision amount 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 CO_2 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 the monitoring process respects 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 the monitoring process respects 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 generally 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.

The current income tax expense is the result of applying the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes.

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 recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the temporary recognition of goodwill, 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.

Specifically for Group companies subject to Spanish corporation tax, in accordance with the provisions of Law 35/2006, of 28 November, on Personal Income Tax and partially amending the Spanish Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws, there will be a gradual five percentage point reduction in the standard tax rate from 35% to 32.5% in 2007 and to 30% from 2008 onwards, consequently, in 2006 the Group updated the measurement of the deferred tax assets and liabilities to bring it into line with the new rates.

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.

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

In accordance with the legislation applicable to companies operating in the oil and gas industry, the excise tax on oil and gas sales is recorded as part of the selling price and as an addition to cost under "Net Revenue" and "Other Operating Expenses", respectively, in the consolidated income statements.

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

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 and 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 that are owned.

Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to 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 the income statement 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 existing long-term credit facilities are 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 2006 and 2005.

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.

Also, 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 risk of gradual soil pollution, with a charge to "Other Operating Expenses" in the consolidated income statements. These provisions were quantified on the basis of in-house estimates and technical studies. Also, the Group has taken out insurance policies to 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 2005 and 2006 is as follows:

Thousands of euros

2005	Balance at 1/1/2005	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/2005
Assets						
Development expenditure	3,788	21	(2,812)	-	-	997
Concessions, patents and licences	60,267	4,501	(37)	4,009	-	68,740
Goodwill	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**

2006	Balance at 1/1/2006	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/2006
						Thousands of euros
Assets						
Development expenditure	997	-	(997)	-	-	-
Concessions, patents and licences	68,740	1,868	980	(728)	(34)	70,826
Goodwill	5,230	-	-	-	(150)	5,080
Computer software	111,018	7,124	352	(34)	(4)	118,456
Flagging contracts	134,398	11,142	-	-	-	145,540
Other intangible assets	111,013	147,388	-	53	(46,139)	212,315
TOTAL	**431,396**	**167,522**	**335**	**(709)**	**(46,327)**	**552,217**
Amortisation						
Development expenditure	(947)	-	947	-	-	-
Concessions, patents and licences	(35,482)	(2,577)	(107)	741	22	(37,403)
Goodwill	(4,065)	(398)	-	-	70	(4,393)
Computer software	(83,447)	(8,963)	-	19	4	(92,387)
Flagging contracts	(98,975)	(8,370)	-	-	-	(107,345)
Other intangible assets	(26,708)	(4,063)	-	(116)	805	(30,082)
TOTAL	**(249,624)**	**(24,371)**	**840**	**644**	**901**	**(271,610)**
Impairment losses	-	(96,534)	-	-	-	(96,534)
Net intangible assets	**181,772**	**46,617**	**1,175**	**(65)**	**(45,426)**	**184,073**

The additions to intangible assets amounting to EUR 77,517 thousand in 2005 and EUR 167,522 thousand in 2006, 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 to "Other Intangible Assets" in respect of the value of CO2 emission allowances relating to the allowances assigned for no consideration under the National Emission Allowance Assignment Plans as detailed below (see Note 15):

	2006		2005	
	Thousands of Tonnes	Thousands of Euros	Thousands of Tonnes	Thousands of Euros
Beginning balance	5,289	44,542	-	-
Emission allowances for the year	6,166	136,818	5,289	44,542
Emission allowances delivered	(5,150)	(43,487)	-	-
Impairment	-	(96,534)	-	-
Ending balance	**6,305**	**41,339**	**5,289**	**44,542**

Emission allowances assigned for no consideration are measured at the market price prevailing at the beginning of the year to which they relate. As a result of a decrease in the difference between this value and their quoted price on the emission allowance market at 2006 year-end, the CEPSA Group recognised an impairment loss for the emission allowances amounting to EUR 96,534 thousand.

In 2007 the allowances relating to emissions made in 2006 will be delivered 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 5,918 thousand in 2005 and EUR 3,463 thousand in 2006 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 2006 the Group had intangible asset purchase commitments amounting to EUR 8,488 thousand.

5. GOODWILL

The detail, by company, of "Goodwill" in 2005 and 2006, is as follows:

2005

Company	Balance at 01/01/05	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31.12.05
						Thousands of euros
Deten Química, S.A.	26,508	-	7,938	-	-	34,446
Cepsa Estaciones de Servicio, S.A.	3,515	-	-	-	-	3,515
Lubricantes del Sur, S.A.	-	-	-	-	-	-
Generación Mazagón, S.A.	122	-	-	-	-	122
TOTAL	**30,145**	**-**	**7,938**	**-**	**-**	**38,083**

2006

Company	Balance at 01/01/06	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31/12/06
						Thousands of euros
Deten Química, S.A.	34,446	-	(599)	-	-	33,847
Cepsa Estaciones de Servicio, S.A.	3,515	-	-	-	-	3,515
Lubricantes del Sur, S.A.	-	399	-	-	-	399
Detisa, S.A.	122	-	-	-	-	122
TOTAL	**38,083**	**399**	**(599)**	**-**	**-**	**37,883**

The cash-generating units to which goodwill was allocated were tested for impairment and the recovery of their carrying amounts was ascertained; 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 2005 and 2006 is as follows:

2005	Balance at 01/01/05	Additions or Charges for the Year	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/05
						Thousands of euros
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
Investments in areas with proven reserves	929,535	58,472	-	-	-	988,007
Investments in areas with 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 & machinery	(2,439,924)	(231,999)	(965)	(20,903)	7,129	(2,686,662)
Accumulated depreciation of investments in areas with proven reserves	(336,111)	(86,732)	-	-	45	(422,798)
Accumulated depreciation of investments in areas with 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**

2006	Balance at 01/01/06	Additions or Charges for the Year	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/06
						Thousands of euros
Assets						
Land and structures	309,275	3,318	4,344	68	(4,459)	312,546
Plant and machinery	4,801,169	12,329	301,856	(18,153)	(55,669)	5,041,532
Investments in areas with proven reserves	988,007	69,317	-	-	-	1,057,324
Investments in areas with unproven reserves	57,169	16,694	-	-	(9,730)	64,133
Other facilities, tools and furniture	95,940	3,501	1,689	(364)	(988)	99,778
Advances and property, plant and equipment in the course of construction	316,643	430,423	(354,744)	(26)	(526)	391,770
Other property, plant and equipment	575,570	8,587	46,521	(869)	(5,475)	624,334
TOTAL	**7,143,773**	**544,169**	**(334)**	**(19,344)**	**(76,847)**	**7,591,417**
Depreciation						
Accumulated depreciation of structures	(65,398)	(8,034)	-	311	424	(72,697)
Accumulated depreciation of plant & machinery	(2,686,662)	(238,668)	(382)	8,378	50,706	(2,866,628)
Accumulated depreciation of investments in areas with proven reserves	(422,798)	(96,451)	22	-	-	(519,227)
Accumulated depreciation of investments in areas with unproven reserves	(55,264)	(6,456)	(22)	-	9,637	(52,105)
Accumulated depreciation of other facilities, tools and furniture	(60,904)	(9,204)	(415)	221	876	(69,426)
Accumulated depreciation of other property, plant and equipment	(126,888)	(29,861)	(44)	417	3,477	(152,899)
TOTAL	**(3,417,914)**	**(388,674)**	**(841)**	**9,327**	**65,120**	**(3,732,982)**
Impairment losses	(21,042)	(4,871)	-	2	3,261	(22,650)
Net property, plant and equipment	**3,704,817**	**150,624**	**(1,175)**	**(10,015)**	**(8,466)**	**3,835,785**

The additions to property, plant and equipment, which amounted to EUR 471,598 thousand in 2005 and EUR 544,169 thousand in 2006, relate most notably to the following items:

- Exploration and Production: investments made in the fields located in Algeria and Colombia to improve and expand facilities and disbursements in areas with potential oil and gas reserves,
- Refining and Marketing: the commencement in 2005 and completion and start-up in 2006 of the new light naphtha reformer unit at La Rábida refinery, 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; 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 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: noteworthy in 2006 and 2005 was the construction of a third phenol plant at ERTISA.

Additions in 2005 and 2006 include EUR 23,516 thousand and EUR 33,837 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 2005 "Retirements or Disposals" mainly includes the derecognition of investments in exploration permits which were written-off and were depreciated in full. In 2006 it mainly includes the derecognition, due to the dismantling thereof, of the lubricants plant at La Rábida refinery, which was depreciated in full, in order to provide space for the enlargement of the middle distillates facility there.

Certain CEPSA Group companies recognised impairment losses at 2005 and 2006 year-end of EUR 217 thousand and EUR 4,871 thousand, respectively, arising from the adjustment of asset values based on the expected recovery of the net investment through the generation of future revenues.

At 31 December 2006, the Group had property, plant and equipment purchase commitments amounting to EUR 189,308 thousand.

At 31 December 2006, no material items of property, plant and equipment had been pledged to secure compliance with obligations relating to the ownership thereof.

The detail of the items of property, plant and equipment acquired under finance lease arrangements at 31 December 2006 and 2005, is as follows:

	2006			2005		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
						Thousands of euros
Plant	58,440	(16,277)	42,163	62,601	(15,468)	47,133
Other facilities, tools and furniture	-	-	-	43	(26)	17
Transport equipment	82,043	(5,139)	76,904	257,200	(29,693)	227,507
Other property, plant and equipment	23,088	(2,012)	21,076	62,246	(4,653)	57,593
TOTAL	**163,571**	**(23,428)**	**140,143**	**382,090**	**(49,840)**	**332,250**

The decrease in value of assets held under finance leases is a result of having exercised the purchase options of various lease contracts when they matured, which include most notably the options relating to three double-hull crude oil tankers (see Note 26).

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 present, since the amount of the interest has been definitively set by a decision of the Huelva Provincial Appellate Court and has been paid to the debenture holders' syndicate, all liability arising from the mortgage has been settled.

Also, the Spanish Supreme Court will hand down a decision with respect to a proceeding initiated by CEPSA against Ercros, S.A. to obtain from the latter the reimbursement of EUR 8,915 thousand deposited at the Court of Moguer 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 carrying amount 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 profit 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 from 2009 to 2028, and 2022, and from 2008 to 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 AND JOINTLY CONTROLLED ENTITIES

¨Investments in Companies Accounted for Using the Equity Method¨ at 2006 and 2005 year-end relates basically to CLH. The detail thereof is as follows:

COMPANY	2006	2005
		Thousands of euros
CLH	70,664	42,249
Other companies	77,306	66,230
Total investments in companies accounted for using the equity method	**147,970**	**108,479**

The detail of the changes in 2006 and 2005 in the above-mentioned heading is as follows:

	2006	2005
		Thousands of euros
Beginning balance	**108,479**	**95,238**
Profit after taxes incurred in the year	61,241	31,177
Dividends paid in the year	(31,495)	(20,256)
Additions of investments in companies accounted for using the equity method	3,648	938
Retirements of companies as a result of:		
Mergers/ Change in consolidation method	-	(142)
Other changes	6,097	1,524
Ending balance	**147,970**	**108,479**

The principal financial aggregates relating to associated companies accounted for using the equity method are summarised below:

	2006	2005
		Thousands of euros
Total assets	642,348	534,766
Total liabilities	499,872	430,909
Net assets	**142,476**	**103,857**
Total revenues	**1,552,043**	**1,216,901**
Profit for the year	**369,370**	**158,519**
Share of results of companies accounted for using the equity method	**61,241**	**31,177**

The detail of the goodwill of companies accounted for using the equity method, by the cash generating unit to which it was allocated, in 2005 and 2006 is as follows:

2005	Balance at 01/01/05	Acquisitions	Other Changes	Disposals	Impairment losses	Balance at 31/12/05
						Thousands of euros
Direct sales companies	911	-	-	-	-	911
Distribution network companies	3,593	-	-	-	-	3,593
Gas companies	-	-	-	-	-	-
TOTAL	**4,504**	**-**	**-**	**-**	**-**	**4,504**

2006	Balance at 01/01/06	Acquisitions	Other Changes	Disposals	Impairment losses	Balance at 31/12/06
						Thousands of euros
Direct sales companies	911	24	-	-	-	935
Distribution network companies	3,593	-	-	-	-	3,593
Gas companies	-	337	-	-	-	337
TOTAL	**4,504**	**361**	**-**	**-**	**-**	**4,865**

The information at 31 December 2006 and 2005 of the financial statements of the main companies jointly controlled by the Group is as follows:

2006	Owner ship %	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Operating Income	Operating Costs
							Thousands of euros
Nueva Generadora del Sur	50%	373,123	46,808	275,870	144,061	304,880	253,640
Interquisa Canada L.P.	51%	384,188	96,240	429,818	50,610	364,133	355,479
Petresa Canada	51%	41,378	31,293	13,386	59,285	100,977	109,000

2005	Owner ship %	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Operating Income	Operating Costs
							Thousands of euros
Nueva Generadora del Sur	50%	376,160	60,291	291,303	145,148	257,910	191,820
Interquisa Canada L.P.	51%	445,037	119,866	498,912	65,992	364,271	361,754
Petresa Canada	51%	57,041	36,379	54,036	39,384	97,169	105,193

8. FINANCIAL ASSETS

The balances of and changes in financial assets in 2005 and 2006 are as follows:

2005	Balance at 01/01/05	Additions	Transfers	Other Changes	Disposals	Balance at 31/12/05
						Thousands of euros
Non-current loans to companies accounted for 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 loans and financial assets	**128,119**	**23,460**	**(19,714)**	**1,383**	**(28,047)**	**105,201**
Current loans to companies accounted for 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 loans and financial assets	**94,654**	**472,855**	**19,714**	**2,454**	**(450,644)**	**139,033**

2006	Balance at 01/01/06	Additions	Transfers	Other Changes	Disposals	Balance at 31/12/06
						Thousands of euros
Non-current loans to companies accounted for using the equity method	14,997	7,900	54,970	-	(5,341)	72,526
Other non-current loans	65,856	14,797	(2,908)	(55)	(19,269)	58,421
Other non-current financial assets	39,796	19,330	-	(6,226)	(10,278)	42,622
Allowances	(15,448)	(415)	-	151	1,031	(14,681)
Total non-current loans and financial assets	**105,201**	**41,612**	**52,062**	**(6,130)**	**(33,857)**	**158,888**
Current loans to companies accounted for using the equity method	108,259	14,986	(54,970)	-	(30,533)	37,742
Other current loans	26,819	87,989	2,908	-	(92,195)	25,521
Other current financial assets	4,015	603,671	-	-	(603,778)	3,908
Allowances	(60)	-	-	-	60	-
Total current loans and financial assets	**139,033**	**706,646**	**(52,062)**	**-**	**(726,446)**	**67,171**

The current and non-current loans to companies accounted for using 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 2005 and 31 December 2006, is as follows:

2005	Maturing in						
	2006	2007	2008	2009	2010	Rest	Total
							Thousands of euros
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**

2006	Maturing in						
	2007	2008	2009	2010	2011	Rest	Total
							Thousands of euros
Loans to companies accounted for using the equity method	37,742	59,347	5,250	-	7,000	929	110,268
Other loans	25,521	14,240	9,617	6,791	6,779	20,994	83,942
TOTAL	**63,263**	**73,587**	**14,867**	**6,791**	**13,779**	**21,923**	**194,210**

9. INVENTORIES

The detail of "Inventories" at 31 December 2006 and 2005 is as follows:

	2006	2005
		Thousands of euros
Crudes	647,014	522,655
Other raw materials	45,005	26,829
Finished goods	870,920	743,731
Other supplies	120,557	147,915
Allowances	(92,421)	(2,630)
TOTAL	**1,591,075**	**1,438,500**

Pursuant to the Directorate-General of Energy Policy and Mining resolution dated 14 December 2006, CEPSA and other Group companies which act as operators are required to maintain minimum oil product safety stocks equivalent to 57 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 2006 and 2005 is as follows:

	2006	2005
		Thousands of euros
Trade receivables for sales and services	1,985,956	1,985,890
Receivable from companies accounted for using the equity method	278,545	213,096
Sundry accounts receivable	7,287	58,128
Tax receivables	61,830	52,593
Allowances	(82,902)	(84,889)
TOTAL	**2,250,716**	**2,224,818**

11. CASH AND CASH EQUIVALENTS

The detail of "Cash and Cash Equivalents" relating to 2006 and 2005 is shown below.

	2006	2005
		Thousands of euros
Cash	82,966	44,707
Cash equivalents	242,956	326,416
Other liquid assets	-	226
TOTAL	**325,922**	**371,349**

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).

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, which is registered at the Spanish National Securities Market Commission (CNMV), at 31 December 2006, Total, S.A., Banco Santander Central Hispano, S.A., International Petroleum Investment Company (IPIC) and Unión Fenosa, S.A. directly and indirectly owned 48.8%, 30.8%, 9.5% and 5.0%, 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 changes in 2006 or 2005 in the balance of this account, which amounted to EUR 338,728 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 2006 and 2005, is as follows:

	2006	2005
		Thousands of euros
Fully and proportionately consolidated companies:		
Cepsa Estaciones de Servicio, S.A.	206,790	191,063
Cepsa Lubricantes, S.A.	23,960	21,715
Cepsa Portuguesa, S.A.	16,567	19,123
Intercontinental Química, S.A.	182,164	160,078
Ertisa, S.A.	125,390	110,613
Petroquímica Española, S.A.	300,412	276,915
Proas, S.A.	10,090	7,651
Other companies	135,076	100,947
Total fully and proportionately consolidated companies	**1,000,449**	**888,105**
Companies accounted for using the equity method:		
Compañía Logística de Hidrocarburos CLH, S.A.	(1,801)	(41,176)
Other companies	2,584	4,298
Total companies accounted for using the equity method	**783**	**(36,878)**
TOTAL	**1,001,232**	**851,226**

d) Translation differences

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

COMPANY	2006	2005
		Thousands of euros
Cepsa International, B.V.	(1,467)	2,401
Deten Quimica, S.A.	20,069	23,312
Interquisa Canada, L.P.	6,041	12,458
Petresa Canada, Inc.	1,847	2,770
Other companies	621	598
Total translation differences	**27,111**	**41,539**

The change in the balance of this heading in 2006 was basically due to the fluctuation in the year-end exchange rates of the Canadian dollar, Brazilian real and US dollar.

e) Dividends

"Interim Dividend Paid" includes the dividends paid out of CEPSA's profit in 2005 and 2006 amounting to EUR 147,166 thousand and EUR 147,166 thousand, respectively.

The shareholders at the Annual General Meeting on 23 June 2006 resolved to pay a dividend of EUR 1.25 per share out of 2005 profit which, after deducting the interim dividend already paid, gave rise to a final dividend of EUR 0.75 per share.

The final dividend out of 2006 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 shareholders.

f) Minority interests

The detail of "Minority Interests" at 31 December 2006 and 2005 is as follows:

MINORITY INTERESTS	2006		2005	
	Equity	Profit (Loss)	Equity	Profit (Loss)
				Thousands of euros
Company				
C.M.D. Aeropuertos Canarios, S.L.	11,951	2,848	12,452	2,585
Deten Química, S.A.	23,478	6,081	22,004	7,544
Lubricantes del Sur, S.A.	-	-	7,201	(533)
Generadora Eléctrica Peninsular, S.A.	9,960	4,970	11,825	1,524
Other companies	(101)	-	2	(103)
TOTAL	**45,288**	**13,899**	**53,484**	**11,017**

In 2006, CEPSA acquired 35% of Lubricantes del Sur, S.A., and therefore, now owns all the shares of this company.

13. BANK BORROWINGS AND OTHER FINANCIAL LIABILITIES

The detail of the balances of current and non-current bank borrowings and other financial liabilities in 2005 and 2006 is as follows:

2005	Current	Non-current	Total
			Thousands of euros
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**

2006	Current	Non-current	Total
			Thousands of euros
Bank borrowings relating to finance leases	26,422	65,957	92,379
Other bank borrowings	257,911	376,406	634,317
Other financial liabilities	25,545	140,712	166,257
TOTAL	**309,878**	**583,075**	**892,953**

The detail, by maturity and currency, of the bank borrowings and other financial liabilities at 31 December 2005 and 2006, is as follows:

	Maturing in						
2005	2006	2007	2008	2009	2010	Rest	Total
							Thousands of euros
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**

	Maturing in						
2006	2007	2008	2009	2010	2011	Rest	Total
							Thousands of euros
Bank borrowings relating to finance leases	26,422	21,600	19,400	19,852	3,693	1,412	92,379
Other bank borrowings	257,911	119,980	74,692	70,766	31,491	79,477	634,317
Other financial liabilities	25,545	10,226	12,577	13,963	14,820	89,126	166,257
TOTAL	**309,878**	**151,806**	**106,669**	**104,581**	**50,004**	**170,015**	**892,953**

	2006 Financial Liabilities			2005 Financial Liabilities		
	Current	Non-current	Total	Current	Non-current	Total
						Thousands of euros
Euro	153,359	335,405	488,764	205,736	422,443	628,179
Foreign currencies	154,571	247,670	402,241	135,961	374,404	510,365
Unmatured interest payable	1,948	-	1,948	2,013	-	2,013
Total bank borrowings and other financial liabilities	**309,878**	**583,075**	**892,953**	**343,710**	**796,847**	**1,140,557**

The average annual nominal interest rate on the loans in euros was 2.55% in 2006 and 2.12% in 2005, and that on the foreign currency loans was 5.13% in 2006 and 3.47% in 2005. The weighted average cost of the financing received was 3.93% in 2006 and 2.79% in 2005.

The loans denominated in US dollars are contracted directly or through US dollar forward sales. The interest rates presented in the preceding paragraph include the effect of these forward sales. In accordance with its foreign currency risk management policy (see Note 22), the CEPSA Group has arranged loans in US dollars to finance certain investments in non-current assets that generate cash flows in US dollars and are accounted for as cash flow hedges.

The detail of the balances and changes in 2006 and 2005 in "Reserves for Fair Value Accounting Financial Assets and Liabilities" relating to these transactions is as follows:

	2006	2005
		Thousands of euros
Beginning balance	**80,795**	**122,104**
Gains or losses recognised directly in equity	21,591	(25,090)
Transferred to income statement	(20,982)	(16,219)
Other	4,670	-
Ending balance	**86,074**	**80,795**

At 31 December 2006 and 2005, the CEPSA Group companies had undrawn credit facilities totalling EUR 689,713 thousand and EUR 687,338 thousand respectively. The undrawn portion does not bear any interest.

14. TAX MATTERS

CEPSA and certain Group companies have filed consolidated income tax returns since 1989. Table I contains a list of the main companies in the tax Group in 2006.

The detail of the income tax expense is as follows:

Thousands of euros

	2006	2005
In the consolidated income statements:		
Current tax expense		
Period tax expense	367,413	626,658
Adjustments to the tax expense for the period or prior years	(4,600)	(6,828)
Deferred tax expense		
Related to the creation or reversal of temporary differences	48,086	(123,638)
Change in temporary differences due to change in tax rate	(26,122)	-
Total tax expense recognised in the consolidated income statement	**384,777**	**496,192**
In the consolidated statement of changes in equity:		
Deferred tax expense	-	-
Related to the creation or reversal of temporary differences	1,881	24,299
Change in temporary differences due to change in tax rate	(4,670)	-
Total tax expense recognised in equity	**(2,789)**	**24,299**

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

Thousands of euros

	2006	2005
Accounting profit (before taxes)	**1,190,144**	**1,517,798**
Theoretical tax rate	416,550	531,229
Difference due to different tax rates	21,637	1,185
Permanent differences	12,758	15,456
Tax credits and relief applied	(35,446)	(44,850)
Tax adjustment	(4,600)	(6,828)
Change in temporary differences due to change in tax rate	(26,122)	-
Total tax expense	**384,777**	**496,192**

The "Change in Temporary Differences due to Change in the Tax Rate" includes basically the change arising from Law 35/2006, of 28 November, on Personal Income Tax and partially amending the Spanish Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws, which provides for a five percentage point reduction in the standard tax rate from 35% to 32.5% in 2007 and to 30% from 2008 onwards.

The tax on remuneration of production activities in force in Algeria is deemed to be of the same nature as 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 related tax payable in 2006 and 2005 amounted to EUR 157,495 thousand and EUR 129,073 thousand, respectively, and in 2006, under Algerian law, included the projected tax payable for the new tax on exceptional profits.

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

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

The "Tax Adjustment" amounts of EUR (4,600) thousand in 2006 and EUR (6,828) thousand in 2005 include the difference between the income tax expense recorded at 31 December 2005 and 2004, and the income tax expense per the final tax returns for those years and other items such as the effect of applying temporary adjustment reversibility criteria for income tax purposes and the effect of the assessments issued by the tax inspection authorities and other supplementary assessments issued to various Group companies.

In calculating the income 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 2006 and 2005, the CEPSA Group did not have any material unused tax credits.

In 2006 and 2005 the income qualifying for the reinvestment tax credit amounted to EUR 23,698 thousand and EUR 1,416 thousand, respectively. This income was reinvested in 2006 and 2005.

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 2006 and 2005:

	Standard Tax System		Canary Island Tax System	
	2006	2005	2006	2005
				Thousands of euros
Environmental investments	13,140	41,352	1,009	10,447
Tax credit	1,314	4,135	303	3,134

At 31 December 2006 and 2005, certain companies in the consolidated tax Group had EUR 11,413 thousand and EUR 15,787 thousand, respectively, of tax losses available for carryforward. The related tax assets were recognised 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:

	2006	2005
		Thousands of euros
Deferred tax assets		
Non-current assets	30,496	11,556
Tax loss carryforwards	4,538	12,186
Provisions	55,288	71,785
Other	10,369	29,838
Total deferred tax assets	**100,691**	**125,365**
Deferred tax liabilities		
Finance leases	44,797	43,266
Non-current assets	21,744	14,793
Hedges	30,635	33,413
Current assets	162,735	186,950
Other	26,188	16,834
Total deferred tax liabilities	**286,099**	**295,256**

The deferred tax liabilities arising from current assets include mainly the deferred tax liability arising from the difference between the carrying amount of inventories measured at average unit cost and their tax base measured at LIFO cost in 2006 and 2005.

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 2006 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 2002, except for the income tax of the CEPSA tax Group which are the years since 2000.

In 2006 the tax authorities initiated a review of the income tax of the CEPSA tax Group companies for the years from 2000 to 2004. At the date of preparation of these financial statements, no discrepancies in the returns subject to review had been disclosed.

CEPSA management does not expect any additional material liabilities for which provisions have not been recognised 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 2005 and 2006 in "Grants Related to Assets" and the balances thereof at year-end are as follows:

Thousands 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**

Thousands of euros

2006	Balance at 01/01/06	Additions	Other Changes	Retirements	Transferred to Income	Balance at 31/12/06
Grants related to assets	65,464	2,091	156	-	(9,606)	58,105
Greenhouse gas emission allowances	1,942	136,818	-	-	(134,382)	4,378
TOTAL	**67,406**	**138,909**	**156**	**-**	**(143,988)**	**62,483**

The detail, by grantor entity, of the additions to "Grants Related to Assets" in 2006 and 2005 is as follows:

	2006	2005
		Thousands of euros
Grants received from:		
European Union	246	123
Central government	-	-
Autonomous Community governments	1,845	96
Third parties	-	7
TOTAL	**2,091**	**226**

The grants received in 2006 relate basically to those given to Petresa.

The additions to "Greenhouse Gas Emission Allowances" include the market value of the emission allowances assigned for no consideration at the date of assignment and the "Transferred to Income" column includes the valuation adjustment initially recognised for the amount recorded as an impairment loss on allowances received from the Government and the recognition in income of the value of the allowances assigned for CO_2 emissions made in the year (see Notes 4 and 25).

16. PENSIONS AND OTHER SIMILAR OBLIGATIONS

a) Defined contribution plans

In 2006 and 2005, CEPSA and several of its subsidiaries recognised the following expenses for defined contribution obligations:

DEFINED OBLIGATIONS	2006	2005
		Thousands of euros
Retirement (pension plan)	15,968	11,939
Life insurance	6,011	1,984
TOTAL	**21,979**	**13,923**

b) Defined benefit obligations

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

DEFINED OBLIGATIONS	2006	2005
		Thousands of euros
Balance at 1 January	**12,653**	**24,049**
Current service cost	1,369	387
Interest cost of benefit	379	813
Net actuarial loss recognised in the year	-	-
Past service cost	-	-
Transfers	(325)	-
Effect of reductions or settlements	(3,134)	(12,596)
Balance at 31 December	**10,942**	**12,653**

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:

COMPANY STORE	2006	2005
		Thousands of euros
Discount rate	4%	4%
Expected salary increase rate	2%	2%
Mortality tables	PEMF2000	PEMF2000

17. OTHER PROVISIONS

The detail of the changes recorded in 2005 and 2006 in "Other Provisions" and of the balances at 31 December 2005 and 2006, is as follows:

2005	Balance at 01/01/05	Provisions	Transfers	Other Changes	Amounts Used	Balance at 31/12/05
						Thousands of euros
Provisions for third-party liability	138,267	46,989	(4,677)	-	(30,812)	149,767
Environmental provisions	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**

2006	Balance at 01/01/06	Provisions	Transfers	Other Changes	Amounts Used	Balance a 31/12/06
						Thousands of euros
Provisions for third-party liability	149,767	19,565	(49,091)	-	(31,047)	89,194
Environmental provisions	25,793	5,923	(1)	-	(8,630)	23,085
Other provisions	63,482	23,978	49,417	(519)	(7,520)	128,838
TOTAL	**239,042**	**49,466**	**325**	**(519)**	**(47,197)**	**241,117**

"Provisions 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 obligations to 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 signed on a contested basis and other tax contingencies in connection with the years open for review by the tax authorities.

"Environmental Provisions" 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.

The directors of CEPSA consider that the provisions recorded in the accompanying consolidated balance sheet cover adequately the risks relating to litigation, arbitration proceedings and other transactions described in this Note and, accordingly, they do not expect any liabilities additional to those disclosed to arise.

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

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" in 2006 and 2005 is as follows:

	2006		2005	
	Non-Current	Current	Non-Current	Current
Trade payables	-	1,316,900	-	1,512,385
Payable to companies accounted for using the equity method	1,116	361,785	3,506	252,486
Guarantees/deposits received	4,214	8,956	4,141	6,482
Other non-trade payables	67,380	176,598	63,378	86,691
Taxes payable	99,962	205,925	83,648	194,158
Provisions	-	39,215	-	43,983
TOTAL	**172,672**	**2,109,379**	**154,673**	**2,096,185**

"Provisions" includes at 31 December 2006 and 2005 amounts of EUR 30,883 thousand and EUR 42,510 thousand, respectively, relating to the obligation to deliver allowances for the CO2 emissions made, which are lower than the allowances assigned under the National Emission Allowance Assignment Plan (see Notes 3-k and 4).

19. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, were 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

	2006	2005
		Thousands of euros
In the consolidated balance sheets:		
Trade and other receivables	278,545	213,096
Current and non-current loans	145,052	123,256
Trade and other payables	362,901	255,992
In the consolidated income statements:		
Revenue	1,574,873	1,437,659
Other operating income	589	1,794
Procurements	313,548	49,075
Other operating expenses	129,054	133,362
Finance income	967	4,091
Finance costs	2,849	1,100

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

Lastly, "Trade and Other Payables" includes EUR 183,334 thousand and EUR 181,308 thousand relating to the excise tax on oil and gas accrued in December 2006 and 2005, respectively, which CEPSA paid to the tax authorities in January 2007 and 2006, 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 2006 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 value of EUR 1,594.4 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 87.8 million with an outstanding balance at year-end of EUR 4.8 million.
			Bank accounts	Average balance in the year: EUR 29.7 million.
			Loans and credit facilities	Average balance in the year of EUR 152.3 million with a cost of EUR 6.5 million. The limit at year-end amounted to EUR 350.2 million of which EUR 117.5 million was used.
			Guarantees	Average risk in 2006 was EUR 117.8 million with a cost of EUR 0.3 million. The risk at year-end amounted to EUR 72.6 million, with a risk limit of EUR 175 million.
			Banking services	The amount paid, including the commissions for using cards in the service station network, was EUR 5.6 million.
			Interest rate hedges	There were no interest rates hedges on long-term financing in 2006.
Total, S.A.	CEPSA	Business	Purchases, services and sundry expenses	EUR 389 million of purchases; EUR 7.4 million of services and sundry expenses.
			Sales, services and sundry income	EUR 327.3 million of sales; EUR 1.3 million of services and sundry income.
Unión Fenosa, S.A.	CEPSA	Business	Purchases, services and sundry expenses	EUR 139.3 million of purchases; EUR 2.3 million of services and sundry expenses.
			Sales, services and sundry income	EUR 4.9 million of sales; EUR 0.4 million of services and sundry income.

(*) Data referring to the CEPSA Group..

The CEPSA Group and its directors and executives did not perform any relevant transactions in 2006.

20. REMUNERATION AND OTHER BENEFITS OF DIRECTORS AND SENIOR EXECUTIVES

The remuneration earned by the directors at the consolidated Group in 2006 and 2005 was as follows:

Thousands of euros

REMUNERATION	2006	2005
Fixed remuneration	1,070	851
Variable remuneration	663	439
Attendance fees	389	453
Bylaw-stipulated directors emoluments	3,498	3,415
Other items	137	77
Contributions to pension funds and plans	4,623	38
Life insurance premiums	3,892	170
TOTAL	**14,272**	**5,443**

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 Consolidated Spanish 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 company object 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
Mr. Pedro López Jiménez	Unión Fenosa S.A.	Energy	0.098%	Chairman

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 company object of Compañía Española de Petróleos S.A., and 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
Mr. Mohamed Nasser Al Khaily	Integrated oil company	As an employee	IPIC	OMV Aktiengesellschaft. Deputy Chairman of the Board
Mr. Mohamed Nasser Al Khaily	Petrochemicals	As an employee	IPIC	Borealis. (Austria). Deputy Chairman of the Board
Mr. Mohamed Nasser Al Khaily	Petrochemicals	As an employee	IPIC	AMI. (Austria). Deputy Chairman of the Board
Mr. Murtadha Al Hashemi	Integrated oil company	As an employee	IPIC	OMV Aktiengesellschaft. Finance Division Manager
Mr. Michel Bénézit	Integrated oil company	As an employee	TOTAL S.A.	TOTAL, S.A. Managing Director of Refining and Marketing and Executive Committee member
Mr. Vincent Méary	Integrated oil company	As an employee	TOTAL S.A.	TOTAL, S.A. Finance Director of Refining, Marketing & Trading
Mr. Jean Privey	Integrated oil company	As an employee	TOTAL S.A.	TOTAL, S.A. Director of Exploration and Production for Africa
Mr. Menno Grouvel	Integrated oil company	As an employee	TOTAL S.A.	TOTAL, S.A. Director of Exploration and Production for Continental Europe and Central Asia
Mr. Jacques Porez	Integrated oil company	As an employee	TOTAL S.A.	TOTAL S.A. Director of South and West Europe Divison, Refining and Marketing
Ms. Bernadette Spinoy	Integrated oil company	As an employee	TOTAL S.A.	TOTAL S.A. Director of Marketing and Sales - Base chemicals
Mr. Eric de Menten	Integrated oil company	As an employee	TOTAL S.A.	TOTAL, S.A. Director of Marketing for Europe

Director	Corporate Name of Subsidiary	Position or Function at the Company
Mr. Carlos Pérez de Bricio Olariaga	Intercontinental Química, S.A.	Chairman
	Petroquímica Española, S.A.	Chairman
	Ertisa, S.A.	Chairman
	Petresa Canada, Inc	Chairman
	Interquisa Canada, Inc	Chairman
	Deten Química, S.A.	Chairman
	Compañía Logística de Hidrocarburos CLH, S.A.	Director
H.R.H. Mr. Carlos de Borbón-Dos Sicilias	Petroquímica Española, S.A.	Director
Mr. Dominique de Riberolles	Petroquímica Española, S.A.	Director
	Ertisa, S.A.	Director
	Cepsa Estaciones de Servicios. S.A.	Chairman
	Intercontinental Química, S.A.	Director
	Petresa Canada, Inc	Director
	Interquisa Canada, Inc	Director
	Cepsa Internacional, B.V.	Joint administrator
	Cepsa Gas Comercializadora, S.A.	Director
	Cepsa Portuguesa de Petróleo, S.A.	Chairman
	Deten Química, S.A.	Director
	Compañía Logística de Hidrocarburos CLH, S.A.	Director

The senior executives who were not simultaneously executive directors of the consolidated Group at 2006 year-end are as follows:

Name	Position
Mr. Fernando Maravall	Senior Vice President, E&P, Natural Gas & Corporate Management
Mr. J. Ignacio Gómez	Senior Vice President, Corporate Technical Division
Mr. Fernando Iturrieta	Senior Vice President, Petrochemicals
Mr. José María Múgica	Vice President, Supplies, Trading, Bunkering & Aviation
Mr. Juan Rodríguez-Fidalgo	Senior Vice President, Human Resources, Legal Affairs & Property Asset Management
Mr. Juan Manuel Ferreras	Secretary, Executive Management Committee
Mr. José E. Aranguren	Vice President, Specialties
Mr. Francisco J. Calderón	Vice President, Retail/Wholesale Operations
Mr. Pedro Miró	Vice President, Exploration & Production
Mr. Carlos Alcázar	Vice President, Institutional Relations
Mr. Félix de Miguel	Vice President, Commercial Planning & Distribution

	2006	2005
		Thousands of euros
Total remuneration of senior executives (*)	4,561	3,694

(*) 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 2006 and 2005, certain Group companies had provided guarantees, mainly for bank transactions and supply contracts, the breakdown being as follows:

	2006	2005
Public entities	140,891	226,119
Suppliers/creditors and other	723,021	728,749
TOTAL	**863,912**	**954,868**

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 546,207 thousand and EUR 605,573 thousand in 2006 and 2005, respectively. These amounts were recognised, by maturity, under "Bank Borrowings" on the liability side of the consolidated balance sheets.

At 31 December 2006, the Group had not pledged any financial assets as security for liabilities or contingent liabilities.

22. RISK MANAGEMENT POLICY

Main risks associated with the CEPSA Group's operations

The CEPSA Group carries on its operations 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 optimise 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 Directors of the respective divisions, supervise and monitor 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 the CEPSA Group's businesses entails a certain degree of sensitivity to the changes in and volatility of oil and gas prices, refining margins and energy product sales. In this respect, the Group's high degree of vertical integration, which has increased in recent years, is a tool that is deemed capable, by itself, of smoothing 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 division. However, this impact can be dampened by the application of certain clauses under production share contract type agreements (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 in energy products or base petrochemical products at source can be relayed to the international and local finished goods markets.

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 and, accordingly, a net daily purchase and sale position in the refining system is established in order to determine the contracts to be arranged in organised futures markets. A long or short position describes the Company's position with respect to the benchmark level, defined as the Company's "price risk target inventory".

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

Foreign currency, interest rate and other financial risks

The Group's operations are exposed, in varying degrees, to risks of fluctuations in the financial markets, particularly changes in exchange rates, mainly the US dollar, the currency in which crude oil, and oil and petrochemical products are priced, with respect to the euro. Exposure to this kind of risk is hedged in accordance with 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 Group companies' net global foreign currency cash flow position and also manages the recourse to financial markets for loans, investment of surpluses and financial instruments.

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

Operations are also sensitive to interest rate changes. The Group has arranged most of its debt at floating rates, taking into account the low debt ratio and because it considers that this financing method will entail a lower cost at long term.

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 banks 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 calculation of commercial credit limits for each customer; the establishment of the most appropriate collection instruments; 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 computer systems to process internal and external data in an integrated and automated manner. Such data are assessed by applying the models established to classify each customer's commercial risk and assign the related credit limit. Insurance policies have also been taken out to cover the risk of customer default in certain commercial areas.

23. DERIVATIVES

Pursuant to the risk management policies explained in Note 22, the CEPSA Group uses 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 used are normally 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 2006 and 2005 is as follows:

	2006			2005		
		Notional Amount			Notional Amount	
	Fair Value	Assets	Liabilities	Fair Value	Assets	Liabilities
						Thousands of euros
Derivatives not designated as hedges						
Foreign currency forwards	182	99,986	29,084	899	234,602	87,198
Crude oil futures	183	6,470	6,608	790	3,625	109,691
Oil product futures	(268)	-	1,932	(418)	-	2,156
Oil product swaps	467	6,215	3,303	383	10,556	21
Total derivatives not designated as hedges	**564**	**112,671**	**40,927**	**1,654**	**248,783**	**199,066**

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.

The notional amounts of the contracts entered into do not reflect the actual risk assumed by the Group, since these amounts only constitute the basis on which the derivative settlement calculations were made.

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 operations.
- Refining and Distribution, which includes supply, refining and distribution operations (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 calculated 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 2006 and 2005

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

Primary segment reporting

2006

Thousands of euros

	Information excluding Non-Recurring Items							
2006	Exploration & Production	Refining & Marketing	Petrochemical Derivatives	Gas & Power	Intra-Group Eliminations	Total	Non-Recurring Items	Consolidated Total
INCOME								
REVENUE								
Revenue from external customers	524,272	18,033,035	1,896,695	253,164		20,707,166		20,707,16
Intra-Group revenue	107,471	3,228,626	69,625	87,630	(3,493,352)			
Total revenue	**631,743**	**21,261,661**	**1,966,320**	**340,794**	**(3,493,352)**	**20,707,166**		**20,707,16**
RESULT								
Depreciation and amortisation charge and impairment losses	(104,011)	(253,784)	(87,353)	(64,431)		(509,579)	(3,031)	(512,610)
Profit from operations	**396,479**	**630,777**	**54,002**	**48,736**		**1,129,994**	**23,064**	**1,153,058**
Other income and expenses	(2,462)	7,616	(6,012)	846		(12)		(12)
Share in profit of companies accounted for using the equity method		55,564	3,477	2,200		61,241		61,241
Net financial profit (loss)						(24,143)		(24,143)
Consolidated profit before tax						**1,167,080**	**23,064**	**1,190,144**
Income tax						(376,704)	(8,073)	(384,777)
Income from discontinued activities							20,188	20,188
Consolidated net profit for the year						**790,376**	**35,179**	**825,555**
ASSETS AND LIABILITIES								
Non-current assets of the segment	555,482	2,577,034	872,995	263,330		4,268,841		4,268,841
Investments accounted for using the equity method		118,021	21,160	8,789		147,970		147,970
Total non-current capital invested	**555,482**	**2,695,055**	**894,155**	**272,119**		**4,416,811**		**4,416,811**
Capital employed	**509,223**	**3,576,961**	**1,032,635**	**223,467**		**5,342,286**		**5,342,286**
CASH FLOW STATEMENT								
Payments of investments	77,069	446,724	16,600	9,487		549,880		549,880
Collections from disposals	8,806	28,706	16,292			53,804		53,804
Operating cash flows	303,782	669,646	135,317	70,828		1,179,573		1,179,573

Primary segment reporting

2005	Information excluding Non-Recurring Items							
	Exploration & Production	Refining & Marketing	Petrochemical Derivatives	Gas & Power	Intra-Group Eliminations	Total	Non-Recurring Items	Consolidated Total
								Thousands of euros
INCOME								
REVENUE								
Revenue from external customers	420,597	15,983,025	1,701,836	264,350		18,369,808		18,369,808
Intra-Group 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**
RESULT								
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		31,117
Net financial profit (loss)						(25,669)		(25,669)
Consolidated profit before tax						**1,239,378**	**278,420**	**1,517,798**
Income tax						(398,745)	(97,447)	(496,192)
Income from discontinued activities							(317)	(317)
Consolidated net 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

b) Geographical segment reporting:

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

Thousands of euros

	Revenue from Sales to External Customers		Net Intangible Assets and Property, Plant & Equipment		Investments in Non-Current Assets	
	2006	2005	2006	2005	2006	2005
Spain (*)	15,960,251	14,280,300	3,138,132	2,931,043	618,854	461,022
Other EU countries	2,322,631	2,229,025	105,240	112,418	4,472	6,377
Africa	554,097	505,316	536,473	561,279	74,405	71,732
Americas	1,066,813	837,835	240,013	281,849	13,960	9,984
Rest of the world	803,374	517,332	-	-	-	-
Consolidated total	**20,707,166**	**18,369,808**	**4,019,858**	**3,886,589**	**711,691**	**549,11**

(*) The data under "Revenue from sales to external customers" in Spain in 2006 and 2005 includes excise taxes.

c) Information on non-recurring items:

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

Thousands of euros

2006	Non-Recurring Items: Exploration & Production	Refining & Marketing	Petrochemical Derivatives	Gas & Power	Total
Profit from operations					
Difference from inventory measurement at LIFO cost	-	27,256	(1,161)	-	26,095
Impairment losses on non-current assets	(3,706)	627	48	-	(3,031)
TOTAL	**(3,706)**	**27,883**	**(1,113)**	**-**	**23,064**
Consolidated net profit					
Difference from inventory measurement at LIFO cost	-	17,716	(755)	-	16,961
Impairment losses on non-current assets	(2,409)	408	31	-	(1,970)
Net profit from discontinued operations	-	-	20,188	-	20,188
TOTAL	**(2,409)**	**18,124**	**19,464**	**-**	**35,179**

2005	Non-Recurring Items: Exploration & Production	Refining & Marketing	Petrochemical Derivatives	Gas & Power	Total
					Thousands of euros
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**
Consolidated net 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 profit from discontinued operations	-	-	(317)	-	(317)
TOTAL	**18**	**169,070**	**11,568**	**-**	**180,656**

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 2006 and 2005 is as follows:

REVENUE	2006	2005
		Thousands of euros
Sales	18,183,206	15,953,204
Servicies provided	334,074	284,777
Sales returns and volume discounts	(43,183)	(50,157)
Excise tax on Oil and Gas	2,233,069	2,181,984
TOTAL	**20,707,166**	**18,369,808**

"Sales" includes EUR 31,292 in 2006 and EUR 24,951 in 2005 relating to the recognition in income of the exchange differences recognised in equity and arising from cash flow hedges of certain of the Group's income (see Notes 13 and 3-l).

OTHER OPERATING INCOME

Thousands of euros

	2006	2005
CO_2 emission allowances (see Note 15)	134,382	42,510
Grants related to income	2,089	2,290
Other operating income	39,647	47,223
TOTAL	**176,118**	**92,023**

PROCUREMENTS

Thousands of euros

	2006	2005
Purchases	(14,937,646)	(12,606,469)
Change in inventories	147,242	154,147
TOTAL	**(14,790,404)**	**(12,452,322)**

STAFF COSTS

Thousands of euros

	2006	2005
Wages and salaries	(362,229)	(336,187)
Pension contributions and life insurance premiums	(21,979)	(14,029)
Other staff costs	(99,337)	(96,593)
Capitalised staff costs	6,667	5,390
TOTAL	**(476,878)**	**(441,419)**

LABOUR FORCE BY PROFESSIONAL CATEGORY

Average Number of Employeess

	2006	2005
Executives	114	113
Department heads	579	589
Other line personnel	3,096	3,074
Skilled employees/Assistants/Clerical staff	7,556	7,136
TOTAL	**11,345**	**10,912**

OTHER OPERATING EXPENSES	2006	2005
		Thousands of euros
Outside services received	(1,162,519)	(1,146,695)
Transport and freight	(476,114)	(448,252)
Taxes other than income tax	(36,603)	(43,441)
Environmental expenses	(14,066)	(16,909)
Other operating expenses	(56,022)	(39,301)
Capitalised operating expenses	23,935	21,990
TOTAL	**(1,721,389)**	**(1,672,608)**

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 in 2006 and 2005 amounted to EUR 1,214 thousand and EUR 1,042 thousand, respectively. The audit fees charged by other auditors participating in the audit of the various Group companies totalled EUR 367 thousand and EUR 350 thousand, respectively.

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 2006 and 2005 amounted to EUR 240 thousand and EUR 402 thousand, respectively, whereas the fees charged for such services by other auditors participating in the audit of the various Group companies totalled EUR 64 thousand and EUR 79 thousand, respectively.

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 two double-hull crude oil tankers, butane gas distribution cylinders and other plant (see note 6).

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

Maturing in:	Operating Leases
	Thousands of euros
2007	145,973
2008	136,344
2009	133,234
2010	132,103
2011	131,600
2012 and subsequent years	511,113
Total payments	**1,190,367**

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

In 2006 lease expenses under operating lease arrangements totalled EUR 146,696 thousand. Contingent payments recognised in the consolidated income statement amounted to EUR 983 thousand.

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

Maturing in:	Finance Leases
	Thousands of euros
2007	30,274
2008	24,908
2009	20,831
2010	20,681
2011	3,839
2012 and subsequent years	1,438
Total future payments	**101,971**
Less Interest	(9,593)
Present value of minimum lease payments	**92,378**

27. OTHER NON-OPERATING INCOME AND EXPENSES

The detail of "Other Non-Operating Income and Expenses" in 2006 and 2005 is as follows:

	2006	2005
		Thousands of euros
Other non-operating income and expenses	(8,054)	(23,535)
Grants related to assets transferred to income for the year	9,386	9,132
Proceeds from asset disposals	(1,344)	(1,205)
TOTAL	**(12)**	**(15,608)**

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 2006 and 2005 is as follows:

FINANCE COST OF NET BORROWINGS	2006	2005
		Thousands of euros
Finance income	38,272	22,520
Finance costs	(50,793)	(36,047)
Capitalised finance costs	6,698	1,370
TOTAL	**(5,823)**	**(12,157)**

OTHER FINANCE INCOME AND COSTS	2006	2005
		Thousands of euros
Income from equity investments	358	387
Gains (losses) on current financial assets	69	(59)
Gains (losses) on derivatives transactions	72	35
Deferred interest allocated to income	220	269
Changes in impairment losses on financial assets	(349)	(818)
Exchange differences	102	(4,448)
Other finance income	7,824	14,094
Other finance costs	(26,616)	(22,972)
TOTAL	**(18,320)**	**(13,512)**

29. INFORMATION ON DISCONTINUED ACTIVITIES

Plastificantes de Lutxana, S.A, is a Group company which has been engaging in the manufacture and sale of plasticisers for 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.

The results of Plastificantes de Lutxana, S.A., a profit of EUR 20,188 thousand in 2006 and a loss of EUR 317 thousand in 2005, were classified as discontinued operations in the consolidated income statement and in 2006 reflected basically the gain on the disposal of the company's non-current assets.

30. EARNINGS PER SHARE

The detail of basic earnings per share in 2006 and 2005 calculated on the basis of the net profit attributable to the holders of ordinary equity instruments of the Parent is as follows:

	2006	2005
		Thousands of euros
Consolidated profit attributed to the Parent	811,656	1,010,272
Loss for the year from discontinued operations	(20,188)	317
TOTAL	**791,468**	**1,010,589**
Number of shares	267,574,941	267,574,941
Earnings per share from continuing operations	€ 2.96	€ 3.78
Earnings per share from continuing operations and discontinued operations	€ 3.03	€ 3.78

It is not necessary to calculate the diluted earnings per share of the CEPSA Group since there are no equity instruments, such as potential ordinary shares, with a dilutive effect on capital.

31. ENVIRONMENTAL MATTERS

Information on the environment for 2005 and 2006 is as follows:

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

ENVIRONMENTAL INVESTMENTS	Balance at 01/01/06	Additions/ Charges	Disposals/ Amounts Used	Other Changes	Balance at 31/12/06
					Thousands of euros
Environmental assets	218,593	14,937	(557)	409	233,382
Accumulated depreciation of environmental assets	(111,636)	(13,342)	64	(67)	(124,981)
TOTAL	**106,957**	**1,595**	**(493)**	**342**	**108,401**

The environmental investments were calculated in 2002 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 purpose 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 specifically 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.

ENVIRONMENTAL PROVISIONS	Balance at 01/01/05	Additions/ Charges	Disposals/ Amounts Used	Balance at 31/12/05
				Thousands of euros
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**

ENVIRONMENTAL PROVISIONS	Balance at 01/01/06	Additions/ Charges	Disposals/ Amounts Used	Balance at 31/12/06
				Thousands of euros
Provision for environmental activities	18,657	4,093	(7,401)	15,349
Provision for environmental contingencies and obligations	7,136	1,830	(1,230)	7,736
TOTAL	**25,793**	**5,923**	**(8,631)**	**23,085**

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

ENVIRONMENTAL EXPENSES	2006	2005
		Thousands of euros
Rent and fees	87	47
Repairs and upkeep	1,773	2,317
Transport	104	83
Other services	6,179	6,030
Additions for environmental provisions	5,923	8,432
Total outside services	**14,066**	**16,909**

"Other Services" includes mainly the expenses relating to the inerting of waste at CEPSA'S facilities amounting to EUR 2,662 thousand in 2006 and EUR 2,931 thousand in 2005.

32. EVENTS AFTER THE BALANCE SHEET DATE

No significant event took place from 31 December 2006 to the date when these consolidated financial statements were authorised for issue.

33. 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 2006 is as follows:

					Thousands of euros					
					Equity					
			% of Ownership		Share Capital					
Name	Registered Office	Line of Business	Direct	Indirect	Subscribed	Paid	Reserves + Net Profit	Net Cost of Investment	Consolidation Method (*)	Tax Group
ATLAS S.A. COMBUSTIBLES Y LUBRIFICANTES	C/ Playa Benítez, s/n. 51004 Ceuta. SPAIN	Oil and gas trading	100%		3,930	3,930	10,260	4,077	F	Yes
C.M.D. AEROPUERTOS CANARIOS, S.L.	Polígono industrial Valle de Güimar. Manzana X, parcelas 17 y 18. 38509 Güimar - Santa Cruz de Tenerife. SPAIN	Jet fuel distribution	60%		21,576	21,576	15,067	12,946	F	No
CEDIPSA, CÍA. ESPAÑOLA DISTRIBUIDORA DE PETRÓLEOS, S.A.	Avda. del Partenón, 12. 28042 Madrid. SPAIN	Service station operation and installation		100%	8,114	8,114	11,170	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 Cristóbal de la Laguna - Santa Cruz de Tenerife. SPAIN	Oil and gas transport	100%		954	954	20.493	956	F	Yes
CEPSA CARD, S.A.	Avda. Partenón, 12 3ª C. 28042 Madrid. SPAIN	Management of group cards		100%	60	60	264	60	F	Yes
CEPSA COLOMBIA, S.A.	Avda. Ribera del Loira, 50. 28042 Madrid. SPAIN	Research and exploration	100%		12,055	12,055	585	11,046	F	Yes
CEPSA COMERCIAL MADRID, S.A. (CECOMASA)	C/ Embajadores Final, s/n. Apartadero Santa Catalina. 28018 Madrid. SPAIN	Oil and gas trading	100%		1,169	1,169	1,280	2,258	F	Yes
CEPSA E.P., SOCIEDAD ANÓNIMA	Avda. Ribera del Loira, 50. 28042 Madrid. SPAIN	Research and oil exploration	100%		3,438	3,438	21,588	16,136	F	No
CEPSA EGYPT S.A., B.V.	Amsteldijk, 166 6th floor. 1079 LH Amsterdam. THE NETHERLANDS	Research and oil exploration	100%		1,934	1,934	(652)	2,000	F	No
CEPSA GAS LICUADO, S.A.	Avda. Ribera del Loira, 50 1ª planta. 28042 Madrid. SPAIN	Gas sale and distribution	100%		36,752	36,752	46,137	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	311,023	120,017	F	Yes

(*) F = Fully consolidated ; P = Proportionately consolidated ; E = Accounted for using equity method.

Name	Registered Office	Line of Business	% of Ownership		Thousands of euros: Equity: Share Capital			Net Cost of Investment	Consolidation Method (*)	Tax Group
			Direct	Indirect	Subscribed	Paid	Reserves + Net Profit			
CEPSA INTERNATIONAL B.V.	Steegoversloot 64. 3311 PR Dordrecht. THE NETHERLANDS	Oil and gas trading	100%		4,074	4,074	31,398	15,210	F	Yes
CEPSA ITALIA, S.p.A.	Viale Milanofiori Palazzo A/6. 20090 Assago - Milan. ITALY	Petrochemicals trading	100%		6,000	6,000	10,212	6,934	F	Yes
CEPSA LUBRICANTES, S.A. (C.L.S.A.)	Avda. Ribera del Loira, 50	Lubricant trading	100%		15,000	15,000	25,983	15,025	F	Yes
	3ª planta. 28042 Madrid SPAIN									
CEPSA MARINE FUELS, S.A.	Avda. del Partenón, 10 (Campo de las Naciones) 28042 Madrid. SPAIN	Oil and gas trading	100%		25,060	25,060	16,605	25,060	F	Yes
CEPSA OPERACIONES MARINA-AVIACIÓN, S.A.	Avda. de Anaga, 21. 38001 Santa Cruz de Tenerife (Tenerife) SPAIN	Corporate services for bunkering-aviation and oil transport	100%		60	60	7,487	60	F	Yes
CEPSA PORTUGUESA PETRÓLEOS, S.A.	Avda. Columbano Bordalo Pinheiro, 108 3º. 1070-067 Lisboa PORTUGAL	Oil and gas trading	96%	4%	27,500	27,500	27,339	38,338	F	No
CEPSA UK, LTD.	Audrey House, 16 - 20 Ely Place. EC1N 6SN London. U.K	Petrochemicals trading trading	100%		148	148	9,596	154	F	No
CEPSA, S.A.	Avda. del Partenón, 12. 28042 Madrid. SPAIN	Corporate services	100%		61	61	80	61	F	Yes
COGENERACIÓN DE TENERIFE, S.A. (COTESA)	C/ Álvaro Rodríguez López, s/n. Refinería Tenerife. 38005 Santa Cruz de Tenerife (Tenerife) SPAIN	Cogeneration		100%	6,000	6,000	9,296	4,988	F	Yes
COMPAÑÍA ESPAÑOLA DE PETRÓLEOS ATLÁNTICO, S.A. (ATLÁNTICO)	Avda. Ribera del Loira, 50 3ª planta. 28042 Madrid. SPAIN	Lubricant trading		100%	1,932	1,932	(1,441)	249	F	Yes
COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS CLH, S.A.	C/ Méndez Álvaro, 44 Edificio 9 planta baja 28045 Madrid. SPAIN	Oil product distribution	14,15%		84,070	84,070	415,501	61,821	E	No
DERIVADOS ENERGÉTICOS PARA EL TRANSPORTE Y LA INDUSTRIA, S.A. (DETISA)	Avda. Partenón, 12 1ª Sector A. 28042 Madrid. SPAIN	Oil product distribution	100%		12,330	12,330	38,081	12,328	F	Yes
DETEN QUÍMICA, S.A.	Rua Hidrogenio 1744 Compleo Petroquímico de Camaçari. Salvador de Bahía. BRAZIL	Production and sale of petrochemicals		71,44%	62,210	62,210	41,287	127,552	F	No
ERTISA, S.A.	Avda. del Partenón, 12 28042 Madrid. SPAIN	Production and sale of petrochemicals	100%		13,005	13,005	127,296	17,173	F	Yes

(*) F = Fully consolidated ; P = Proportionately consolidated ; E = Accounted for using equity method.

Name	Registered Office	Line of Business	% of Ownership Direct	% of Ownership Indirect	Share Capital Subscribed (Thousands of euros, Equity)	Share Capital Paid	Reserves + Net Profit	Net Cost of Investment	Consolidation Method (*)	Tax Group
ETBE HUELVA, S.A.	Avda. de la Buhaira, 2 41018 Sevilla. SPAIN	Production and sale of Ethyl Tertiary Butyl Ether	100%		2,260	2,260	9,811	2,782	F	No
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Avda. del Partenón, 12 28042 Madrid. SPAIN	Cogeneration		70%	32,000	32,000	18,451	22,400	F	No
INTERCONTINENTAL QUÍMICA, S.A. (INTERQUISA)	Avda. Partenón, 12 2ª Sector D. 28042 Madrid. SPAIN	Production and sale of petrochemicals	100%		25,865	25,865	206,844	50,111	F	Yes
INTERQUISA CANADA, L.P.	10200 East Sherbrooke Street. H1B 1B4. Montreal - Quebec. CANADA	Production and sale of petrochemicals		51%	188,422	188,422	(1,557)	104,437	P	No
LUBRICANTES DEL SUR, S.A. (LUBRISUR)	Avda. Ribera del Loira, 50 2ª planta. 28042 Madrid. SPAIN	Lubricant trading de lubricantes	100%		6,102	6,102	39,355	24,610	F	No
NUEVA GENERADORA DEL SUR, S.A.	Avda. San Luis, Edificio C 4ª planta. 28033 Madrid. SPAIN	Power cogeneration	50%		96,000	96,000	31,380	69,125	P	No
PETRESA CANADA INC.	5250 Boulevard Becancour. G9H 3X3. Becancour. Quebec. CANADA	Production and sale of petrochemicals		51%	51,745	51,745	(38,359)	6,876	P	No
PETROQUÍMICA ESPAÑOLA, S.A. (PETRESA)	Avda. Parteón, 12 5ª Sector A. 28042 Madrid. SPAIN	Production and sale of petrochemicals	100%		3,750	3,750	243,206	12,847	F	Yes
PETRÓLEOS DE CANARIAS, S.A. (PETROCAN)	Explanada de Tomás Quevedo, s/n (Nuevo nombre: Avda. de las Petrolíferas) (1*). 35008 Las Palmas de Gran Canarias (Gran Canaria). SPAIN	Bunkering services	100%		120	120	61,177	121	F	Yes
PLASTIFICANTES DE LUTXANA, S.A. (P.D.L.)	La Florida, s/n. 48930 Lutxana-Baracaldo (Vizcaya). SPAIN	Production and sale of petrochemicals	100%		3,023	3,023	7,537	6,258	F	Yes
PRODUCTOS ASFÁLTICOS, S.A. (PROAS)	Avda. Ribera del Loira, 50 28042 Madrid. SPAIN	Asphalt product sales	100%		3,150	3,150	14,776	5,313	F	Yes
PROMOTORA DE MINIMERCADOS, S.A. (PROMIMER)	Avda. del Partenón, 12 2º C 28042 Madrid. SPAIN	Retailing at service stations		100%	753	753	7,962	1,989	F	Yes
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Avda. Columbano Bordalo Pinheiro, 108 3º 1070-067 Lisboa. PORTUGAL	Supply point management services	93%	7%	224	224	2,302	1,380	F	No
SOCIETAT CATALANA DE PETROLIS, S.A. (PETROCAT)	Avda. Diagonal, 605, 4 T 6A 08028 Barcelona SPAIN	Oil product import and distribution		45%	15,093	15,093	(6,575)	3,956	E	No

(*) F = Fully consolidated ; P = Proportionately consolidated ; E = Accounted for using equity method.

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS OF 2006

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

OPERATING ENVIRONMENT

Global economic growth continued at a strong and steady pace in 2006, overriding the impact of high oil and other commodity prices. By geographical areas, the US economy, underpinned by robust consumer spending, saw GDP rise roughly 3.3%, whereas Asia's emerging economies carried on with their vigorous expansion.

The Eurozone achieved a growth rate of 2.8% in 2006, compared to 1.5% in 2005, picking up steam at the end of the year, driven primarily by the strength of consumer demand in Germany and Italy.

Spain's thriving economy was reflected in its GDP, which rose nearly 3.9%, supported by solid industrial performance, especially in the capital goods sector, prompting a further significant reduction in the unemployment rate. At the same time, the country's inflation trends began to slow down compared to recent years.

With regard to currency markets in 2006, the euro steadily gained ground against the US dollar, contrary to what happened in 2005. The year's average exchange rate for the euro was $1.26, climbing 1% from the year before.

Short-term interest rates on the euro rose persistently throughout the period, with the average for 2006 at 3.6%. Long-term rates, on the other hand, remained practically stable at around 4%. On the other side of the Atlantic, interest rates on the US dollar also moved upward, although evidencing more moderate increases compared to 2005. The average short-term interest rate on the greenback was 5.35%.

Firm demand for crude oil and a variety of geopolitical factors have been exerting relentless pressure on oil prices since mid-2003. Even though crude oil prices fell sharply in the latter part of 2006, benchmark Brent still averaged $65 per barrel in the year, soaring 20% from 2005's price levels.

The surge in commodity prices was not passed along to refined product prices in the same proportion, which led to tighter refining margins, especially in the last quarter of 2006. In this period, the refining margin indicator averaged $1.9 per barrel, versus $4.57 in the fourth quarter of 2005. Looking at the year as a whole, the average margin was still relatively favorable, coming to $3.13 per barrel, although it fell 35% from the $4.81 per barrel recorded in 2005.

As for sales, oil product consumption in Spain is estimated to amount to around 74 million tons, 1% less than the previous year. Factors explaining this performance include strong demand for middle distillates, up 2.8% in the case of diesel fuels and 4.4% in kerosene, and a decline of 4.5% in gasoline sales, mainly triggered by the growing dieselization of the vehicle fleet.

ACTIVITY

In the **Exploration & Production** segment, CEPSA's aggregate crude oil sales totaled 8.7 million barrels in 2006.

The Company's core upstream asset base is located in Algeria, in the RKF and Ourhoud fields of Block 406A, which maintained a strong and sustained level of production, with total output up 4% from the year before.

These fields are governed by production-sharing contracts (PSC), whose terms and conditions determine that an increase in the sales price of crude oil is automatically counterbalanced and offset by a lower net amount of barrels of oil available for sale. This "price effect" is the key reason behind the 12% drop in Algerian crude oil sales, falling from 9.6 million barrels in 2005 to 8.4 million in 2006.

A key development in the year was the enactment, at the end of 2006, of a new windfall tax on oil-generated profits in Algeria. The Company estimated the tax expense in this connection, which retroactively affects earnings generated as of August, and an allowance was made accordingly against the year's earnings.

In Colombia, CEPSA has stakes in several production blocks and is also undertaking exploratory work in other permits, all of them situated in the Upper and Middle Magdalena River Valley.

In 2006, CEPSA was awarded a second exploration permit in Egypt for the South Alamein block, measuring over 3,000 square kilometers and located in an oil and gas-rich basin in the northwestern part of the country, where exploratory work is due to start in the early months of 2007.

Out of a total figure of 91 million euros in capital and exploration expenditures in this segment, approximately 75% was assigned towards the development of producing fields mainly in Algeria, while the rest was allocated towards undertaking exploration-related activities in a variety of areas around the globe.

In the **Refining & Marketing** segment, manufacturing activity, which encompasses oil and basic chemical products, witnessed favorable performance, with a roughly 98% refining capacity utilization rate. Thus, refinery throughput in the year amounted to 21.5 million tons, up 1% from 2005 and 4% from 2004.

Regarding margins, as mentioned in the previous section, international product prices did not fully reflect the sharp rise in crude oil prices, negatively impacting refining earnings on a broad basis, notably in the last few months of the year. In CEPSA's case, the considerable decline in refining margin indicators was partly cushioned by better purchasing formulas vis-a-vis Brent as well as the structure of the basket of products obtained, especially basic chemicals, which made a significant contribution to earnings in 2006.

Looking at oil product and basic chemical sales, mainly earmarked for the domestic market, a total of 28 million tons were sold in 2006, rising 2% from 2005's figures, with an improvement in marketing margins per unit compared to the previous year, both as regards oil and basic chemical products.

Capital spending in the year, amounting to 340 million euros, was primarily assigned towards building new production facilities at CEPSA's three wholly-owned refineries, noteworthy being the new light naphtha reformer in the La Rábida Refinery that came on-stream at the end of 2006, and expanding and refurbishing CEPSA's retail network.

Consolidated sales in the **Petrochemicals** segment totaled 2.3 million tons, similar to the amount sold the previous year. This business was impacted by high feedstock prices, the rise in energy costs and a certain amount of overcapacity in the industry, which dragged down unit margins in a number of product lines, largely offset by stronger performance in basic chemical sales.

A total of 121 million euros were spent in this segment, the most significant portion of which was assigned to the construction of a third phenol plant in ERTISA, located in the chemical complex of Huelva. This new facility is slated to come on-stream in the first half of 2007.

As for the **Gas & Power** segment, electricity sales in 2006 amounted to 3,540 GWh, slipping 6% from the year before. Sales prices, taking sales to the power pool as a reference point, fell steadily since March, chiefly on account of the rise in hydraulic and wind power production, placing the year's average below 2005's median levels. On the other hand, gas sales, both on the market as well as in swap transactions, were sharply higher than in the previous year.

RESULTS

The CEPSA Group's 2006 financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), which are mandatory for the group accounts of listed entities in the EU.

Highlights of 2006's consolidated financial statements, expressed in millions of euros, are as follows:

INFORMATION BY SEGMENTS EXCLUDING NON-RECURRING ITEMS	Exploration & Production	Refining & Marketing	Petrochemicals	Gas & Power	Total Consolidated
					Millions of euros
Net sales to external customers					
Total	524	18,033	1,897	253	20,707
Total excluding excise tax on oil and gas	524	15,800	1,897	253	18,474
Operating income by segments	396	631	54	49	1,130
% change from previous year	*11%*	*(10)%*	*(54)%*	*(36)%*	*(10)%*
Average cost - LIFO difference and other non-recurring items					23
Other income and expenses					37
Consolidated pre-tax income					**1,190**
Corporate income tax					(385)
Gains/(losses) from discontinued operations					20
Net consolidated income for the year (before minority interests)				**826**	
Income attributable to: Shareholders of the parent company					**812**
Minority interests					14

Operating income from all business segments, excluding non-recurring items, amounted to 1,130 million euros, 10% less than in 2005, which was an exceptionally good year for refining margins.

As regards the caption of "non-recurring items" in the foregoing table, the breakdown is as follows:

NON-RECURRING ITEMS	2006	2005
		(Millions of euros)
Asset impairment	(3)	2
Difference in inventory valuation (Average Cost-LIFO)	26	276

Within this caption, the most significant item is the difference in valuing company-owned inventory by the LIFO method, used as a business segment performance indicator, versus the Average Cost method applied under IFRS. This difference amounted to 276 million euros in 2005, driven by the sharp rise in crude oil and middle distillate product prices in said year, and only 26 million euros in 2006.

The net result of discontinued operations in 2006 is obtained from the sale of non-core assets which were already classified accordingly as assets available for sale.

Net income attributable to shareholders of the parent company totaled 812 million euros, equivalent to an EPS (Earnings Per Share) of 3.03 euros.

Return on average capital employed (ROACE) for the Consolidated Group came to 17%.

Based on CEPSA's 2006 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, the same as the dividend paid out in 2005. The proposed dividend, involving a total disbursement of 334.5 million euros, is equivalent to a pay-out ratio of approximately 43% 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, 2006.

FINANCIAL AND EQUITY POSITION

At the close of 2006, the CEPSA Group's consolidated assets totaled 8,723 million euros, 3% higher than the 2005 year-end figure.

Non-current assets, which include tangible fixed assets, intangible assets and long-term financial investments, amounted to 4,465 million euros at December 31, 2006, 202 million more than the figure recorded at the end of the previous year.

The Group's capital employed came to 5,342 million euros at year-end, with the increase mainly concentrated in the Refining & Marketing segment. Out of the year-on-year increase of 288 million euros, 84 million euros were due to the rise in operating working capital. The breakdown by business segments is as follows:

INFORMATION BY SEGMENTS	Exploration & Production	Refining & Marketing	Petrochemicals	Gas & Power	Total Consolidated
					(Millions of euros)
Capital employed 2006	509	3,577	1,033	223	5,342
Capital employed 2005	538	3,233	1,037	247	5,054
Variation 2006 - 2005	**(29)**	**344**	**(4)**	**(24)**	**288**

Shareholders' equity at December 31, 2006, before the final dividend distribution for the year, amounted to 4,779 million, thereby funding over 89% of the capital employed at this date.

Cash flow from operating activities, before changes in operating working capital, totaled 1,020 million euros, similar to last year's levels.

Once again, the Company achieved a sharp decline in interest-bearing debt, which in turn meant an improvement in its financial leverage, with the net debt-to-equity ratio coming to just over 10%.

MAJOR RISKS ASSOCIATED WITH THE CEPSA GROUP'S ACTIVITY

The CEPSA Group's activities, due to their nature, are exposed to a series of external risks and factors that can affect the way operations are conducted and the results obtained thereof. In order to mitigate this impact, the CEPSA Group implements a general risk policy that seeks to optimize the risk/reward tradeoff, consistent with 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 key variables, in order to have a complete and comprehensive view of their impact on the Group.

The Executive Committee, the Chief Executive Officers, as well as the Executive Managers of the different business divisions, supervise and regularly 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 and refining and marketing margins. Accordingly, the Group's high level of vertical integration, strengthened in recent years, is one tool that in itself can help the Company override the cyclicality of the oil industry and ease the effects this can have on one or another of the Group's different segments or areas.

For instance, an increase in crude oil prices has a 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-a-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 (over-the-counter) 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.) risks

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 exchange 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 unused balances of which bear no interest expense.

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.

As a preventive measure, 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.

Accordingly, certain procedures are implemented in order to properly manage the aforementioned risks and control devices and networks are in place to gauge them, often in real time. Furthermore, the Company also assesses the probability and possible impacts from identified 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. Both in 2005 and 2006, 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 Allocation 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 competitive position. In order to achieve this goal, the Research Center continued to work towards advancing the Company's storehouse of scientific and technical know-how and expertise to further its productive processes. This Center is also actively involved in a number of key research projects, chief among which are those related to the production and use of bio-fuels.

As evidence of CEPSA's staunch commitment to these activities, construction started in 2006 on a brand-new Research Center that will replace the current one, expected to become operational in the second half of 2008.

HUMAN RESOURCES

At December 31, 2006, employees of CEPSA and its subsidiaries numbered 11,096 people, 313 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 crucial to the Company's success, and to improved performance on the job. Over the year, 467,000 instructional hours were provided, more than 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 competencies of its employees, build up their expertise 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 the Compañía Española de Petróleos, S.A in 2006.

SUBSEQUENT EVENTS

No significant events or noteworthy developments occurred between year-end 2006 and the Board's approval of the 2006 financial statements.

OUTLOOK

The strategy defined by the CEPSA Group, and implemented in recent years, is mainly targeted towards balancing and diversifying earnings contributions from its different business segments through their organic growth.

The Group also strives to maintain a sound financial and equity position and the proper risk controls to be able to successfully override challenging or shifting scenarios in the oil industry and global marketplace, and particularly to have the funds available to capitalize on future developments and attractive new business opportunities that will provide a springboard for further growth and yield significant long-term, sustainable value for its shareholders.

Although it is hard to make reliable predictions about the future direction of the market and the industry, CEPSA believes it is well-positioned to operate in an environment that presumably, in the medium term, will be characterized by rising commodity and feedstock prices and a sustained and steadily growing demand for energy products both in Spain and around the world, even with recent downward adjustments in growth forecasts. Since CEPSA's investment decisions are based on its long-term outlook, using a disciplined approach, it has established a capital spending program that basically involves the following plans and objectives:

As regards the upstream area, the Company's goal is to consolidate the level of proprietary reserves over the long run, through investments in already-developed fields and additions to its asset portfolio in various geographical areas.

In petroleum product and basic chemical manufacturing, large-scale expenditures will be assigned towards alleviating the shortage of middle distillates – particularly automotive diesel fuel - on the Spanish market and raising chemical production capacity, while improving the overall operating efficiency and flexibility of its facilities. Although these investments will affect all of CEPSA's refineries, the bulk will be focused on the La Rábida Refinery in Huelva, where the CAPEX figure is expected to exceed 1,100 million euros, with these new capital projects scheduled to come on-stream in late 2009. Other key strategic plans include efficiency enhancement and cost-saving measures and the development of environmentally-friendly biofuel products.

As far as marketing objectives are concerned, CEPSA is steadfastly focused on consolidating its presence in its traditional and niche markets, capitalizing on synergies in activities with high added value and dynamically pursuing growth in other markets in our area of influence.

In petrochemical intermediates, the aim is to capture the potential of expanded production capacities and attain broader geographical diversification in high-growth product lines.

Lastly, CEPSA's strategy in its Gas & Power segment is centered on raising its share of the natural gas market, increasing its power generation capabilities and achieving better integration and balance with its retailing activities. A key project in this area is MEDGAZ, aimed at building and operating a gas pipeline that will connect Algeria to Europe via Spain, in which CEPSA's shareholding comes to 20%. This major pipeline is expected to start up in 2009, initially transporting 8 BCM (billion cubic meters) of natural gas per year.

INFORMATION TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

SUMMARY OF PROPOSALS TO BE SUBMITTED BY THE BOARD OF DIRECTORS FOR APPROVAL OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS_**148**

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.- PROPOSED 2006 PROFIT DISTRIBUTION_**149**

SUMMARY OF PROPOSALS TO BE SUBMITTED BY THE BOARD OF DIRECTORS FOR APPROVAL OF THE 2007 ANNUAL GENERAL MEETING OF SHAREHOLDERS OF COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. (CEPSA)

1. Study and approval, where applicable, of 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 2006.

2. Resignation, appointment, ratification and re-election of Board Directors.

3. Reappointment of Deloitte, S.L. for a one-year period, as the independent auditors to examine and review the 2007 Financial Statements of Compañía Española de Petróleos, S.A. and the companies pertaining to its Consolidated Group.

4. Approval of the simplified merger between Compañía Española de Petróleos, S.A. and ETBE Huelva, S.A., the former being the takeover company and the latter, the target company, pursuant to what is set forth in Article 250 of the amended Corporations Act.

5. Delegation of 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 2006 PROFIT DISTRIBUTION

Basis of Distribution:	**Euros**
2006 Income	686,818,277.49
Total	**686,818,277.49**

Distribution to:	**Euros**
Dividends	334,468,676.25
Voluntary Reserves	352,349,601.24
Total	**686,818,277.49**

At its meeting of September 22, 2006, the Board of Directors declared an interim dividend on the year's profits of 0.55 euros per share, payable October 25, 2006.

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.

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NOTES FROM THE BOARD OF DIRECTORS

As set forth in Article 35 of the Company Bylaws, the Annual General Meeting of Shareholders of June 23, 2006 ratified the appointments of Murtadha M. Al Hashemi, Pedro José López Jimenez and Michel Bénézit as Board Directors for a five-year term of office. Each of these directors was co-opted onto the Board at the meetings of this body held respectively on September 23, 2005, November 24, 2005 and March 30, 2006.

The Board of Directors of the Company, at its meeting of June 23, 2006, resolved to accept the voluntary resignation tendered by the Director, Pierre Klein, at the same time acknowledging his valuable contributions and commitment throughout his years of service to the Company. As Mr. Klein's successor, the shareholder Eric de Menten 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.

As proposed by the Nominations and Compensation Committee and the Executive Committee, the Board of Directors, at its meeting held on December 21, 2006, appointed Dominique de Riberolles as Chief Executive Officer and member of the Executive Committee, in addition to his positions as Executive Director, Senior Vice President of Planning & Control and Senior Vice President of Oil Marketing.

The Board of Directors meeting on March 23, 2007 formulated and approved the 2006 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 2006 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 similarly approved, as endorsed by all its members, the merger plan for CEPSA and ETBE HUELVA, with the former being the takeover company and the latter, the target company, and resolved to submit it to the next Annual Meeting.

The Board, at this same meeting, also approved the Company's 2006 Corporate Governance Report.

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.

Statement of Income for the years ended December 31

		IFRS		SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Sales of products and services	18,474	16,188	11,945	12,519	11,056	9,407
Excise tax on oil and gas charged to sales	2,233	2,182	2,168	2,169	2,143	2,052
Net sales	**20,707**	**18,370**	**14,113**	**14,688**	**13,199**	**11,459**
Other operating income	275	278	97	76	67	153
Total sales & operating revenues (**)	**20,982**	**18,648**	**14,210**	**14,764**	**13,266**	**11,612**
Earnings before interest, taxes, depreciation and amortization (EBITDA) (*)						
Exploration & Production	499	461	399	344	527	58
Refining, Marketing & Basic Chemicals	862	928	732	748	607	468
Petrochemicals	126	193	180	177	131	214
Gas & Power	83	99	42	37	27	24
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**1,570**	**1,681**	**1,353**	**1,306**	**1,292**	**764**
Operating income (*)						
Exploration & Production	393	358	301	244	394	21
Refining, Marketing & Basic Chemicals	681	737	585	576	458	286
Petrochemicals	58	120	93	83	56	162
Gas & Power	49	77	23	20	17	15
Total operating income	**1,181**	**1,291**	**1,002**	**923**	**925**	**484**
Operating income from business segments (*)						
Exploration & Production	396	357	301	244	215	21
Refining, Marketing & Basic Chemicals	631	698	543	561	446	273
Petrochemicals	54	118	91	83	56	162
Gas & Power	49	76	23	20	17	15
Total operating income from business segments	**1,130**	**1,249**	**958**	**908**	**734**	**471**
Average Cost vs. LIFO difference	26	276	85			
Other non-recurring items	(3)	2	5		179	
Total consolidated operating income	**1,153**	**1,528**	**1,048**	**908**	**913**	**471**
Income before taxes	**1,190**	**1,518**	**1,058**	**998**	**946**	**575**
Corporate income taxes	(385)	(496)	(364)	(341)	(326)	(97)
Consolidated income from continuing operations	**805**	**1,022**	**694**	**657**	**620**	**478**
Income/(loss) from discontinued operations	21	(1)	(3)			
CONSOLIDATED NET INCOME (before minority interests)	**826**	**1,021**	**691**	**657**	**620**	**478**
Minority interests	(14)	(11)	(8)	(7)	(8)	(17)
Net income (attributable to the parent company)	**812**	**1,010**	**684**	**650**	**612**	**461**
Impact from non-recurring items in the period	(35)	(181)	(59)	-	(116)	-
Ordinary net income (attributable to the parent company)	**777**	**829**	**625**	**650**	**496**	**461**

(*) 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 2002 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

Balance Sheet (before profit distribution) at December 31

	IFRS			SPANISH GAAP		
ASSETS	2006	2005	2004	2004	2003	2002
						Millions of euros
Due from shareholders for uncalled capital		-	-	-	-	-
Fixed assets:	**4,427**	**4,226**	**4,040**	**3,956**	**3,659**	**3,679**
Start-up expenses	-	-	-	1	-	5
Intangible assets	184	182	124	981	902	933
Tangible fixed assets	3,836	3,705	3,573	2,651	2,405	2,313
Long-term financial investments	407	339	343	323	352	428
Goodwill in consolidation	**38**	**38**	**30**	**90**	**99**	**95**
Deferred charges	-	-	-	**63**	**57**	**58**
NON-CURRENT ASSETS	**4,465**	**4,264**	**4,070**	**4,109**	**3,815**	**3,832**
Current assets:						
Due from shareholders for called capital	-	-	-	-	-	-
Inventories	1,591	1,439	1,059	736	736	674
Accounts receivable	2,251	2,225	1,810	1,795	1,418	1,364
Other short-term investments	67	139	95	177	182	76
Cash and cash equivalents	326	371	112	50	41	36
Other current assets	13	31	29	41	24	29
CURRENT ASSETS	**4,248**	**4,205**	**3,105**	**2,799**	**2,401**	**2,179**
Non-current assets held for sale and from discontinued operations	**11**	**6**	**6**	-	-	-
TOTAL ASSETS	**8,724**	**8,475**	**7,181**	**6,908**	**6,216**	**6,011**

SHAREHOLDERS' EQUITY AND LIABILITIES	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Shareholders' equity	**4,779**	**4,310**	**3,598**	**3,292**	**2,899**	**2,518**
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	3,303	2,627	2,211	2,096	1,741	1,466
Fair value reserve	86	81	122			
Translation differences	27	41	(2)	(40)	(40)	(45)
Income attributable to the parent company	812	1,010	684	650	612	461
Interim dividend paid in the year	(147)	(147)	(112)	(112)	(112)	(62)
Minority interests	**59**	**64**	**42**	**40**	**38**	**36**
TOTAL SHAREHOLDERS' EQUITY	**4,838**	**4,374**	**3,641**	**3,332**	**2,937**	**2,554**
Negative difference in consolidation	**-**	**-**	**-**	**1**	**2**	**4**
Non-current liabilities						
Deferred revenues	62	67	73	339	363	239
Provisions for contingencies and expenses	252	252	227	271	303	302
Long-term debt:						
Payable to credit entities	442	667	727	736	836	997
Other interest-bearing loans	141	130	71	71	39	57
Other non-current liabilities	459	450	309	95	79	94
NON-CURRENT LIABILITIES	**1,356**	**1,566**	**1,407**	**1,512**	**1,620**	**1,689**
Current liabilities						
Short-term debt:						
Payable to credit entities	284	313	305	305	260	242
Other interest-bearing loans	26	31	67	67	57	234
Other current liabilities	2,220	2,191	1,762	1,691	1,340	1,289
CURRENT LIABILITIES	**2,530**	**2,535**	**2,134**	**2,063**	**1,657**	**1,764**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**8,724**	**8,475**	**7,181**	**6,908**	**6,216**	**6,011**

Intangible and Tangible Fixed Assets at December 31

	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Gross intangible assets:	**552**	**431**	**353**	**1,626**	**1,457**	**1,367**
Research & Development costs	-	1	4	1,060	1,007	94
Operating licenses, concessions, patents etc.	71	69	60	75	56	49
Goodwill	5	5	5	10	10	11
EDP computer software	118	111	100	100	89	78
Other intangible assets	358	245	184	381	295	284
Amortization and provisions of intangible assets:	**368**	**249**	**229**	**645**	**555**	**434**
Research & Development costs	-	1	1	468	402	302
Operating licenses, concessions, patents etc.	37	35	33	52	46	40
Goodwill	4	4	4	5	4	4
EDP computer software	92	83	75	75	68	61
Other intangible assets	235	126	116	45	35	26
Net intangible assets:	**184**	**182**	**124**	**981**	**902**	**933**
Research & Development costs	-	-	3	592	605	643
Operating licenses, concessions, patents etc.	34	34	27	23	10	8
Goodwill	1	1	1	5	6	7
EDP computer software	26	28	25	25	21	17
Other intangible assets	123	120	68	336	260	258

	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Gross tangible fixed assets:	**7,591**	**7,144**	**6,710**	**5,250**	**4,794**	**4,537**
Land and structures	313	309	300	301	285	277
Technical installations and machinery	5,041	4,801	4,547	4,420	3,975	3,407
Investments in oil and gas producing assets	1,121	1,045	1,056			
Other installations, tools and furniture	100	96	91	91	84	89
Advances and construction in progress	392	317	209	196	217	584
Other fixed assets	624	576	507	242	233	180
Depreciation and provisions of tangible fixed assets:	**3,755**	**3,439**	**3,137**	**2,599**	**2,389**	**2,224**
Land and structures	73	65	58	54	52	47
Technical installations and machinery	2,889	2,708	2,463	2,415	2,223	2,070
Investments in oil and gas producing assets	571	478	462			
Other installations, tools and furniture	69	61	52	52	44	46
Other fixed assets	153	127	102	78	70	61
Net tangible fixed assets:	**3,836**	**3,705**	**3,573**	**2,651**	**2,405**	**2,313**
Land and structures	240	244	242	247	233	230
Technical installations and machinery	2,152	2,093	2,084	2,005	1,752	1,337
Investments in oil and gas producing assets	550	567	594			
Other installations, tools and furniture	31	35	39	39	40	43
Other fixed assets	471	449	405	164	163	119
Advances and construction in progress	392	317	209	196	217	584

Statement of Capital Employed (before profit distribution) at December 31

	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
CAPITAL EMPLOYED						
1. Net fixed assets	**4,433**	**4,264**	**4,041**	**4,074**	**3,805**	**3,757**
2. Working Capital	**1,672**	**1,588**	**1,148**	**931**	**907**	**797**
NET ASSETS	**6,105**	**5,852**	**5,189**	**5,005**	**4,712**	**4,554**
3. Long-term operating liabilities	**(762)**	**(798)**	**(552)**	**(495)**	**(506)**	**(505)**
CAPITAL EMPLOYED	**5,343**	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**
CAPITAL USED						
4. Permanent resources:	**5,433**	**5,184**	**4,440**	**4,315**	**4,043**	**3,666**
4.1. Shareholders' equity	4,779	4,310	3,598	3,292	2,899	2,518
4.2. Minority interests	59	64	42	40	38	36
4.3. Negative difference in consolidation	-	-	-	1	2	4
4.4. Internal allowances	12	13	24	30	32	36
4.5. Unrealized foreign currency exchange gains	-	-	-	180	207	93
4.6. Long-term interest-bearing loans	583	797	776	772	865	979
5. Net short-term financing:	**(90)**	**(130)**	**197**	**195**	**163**	**383**
5.1. Short-term financing	308	341	369	372	317	475
5.2. Short-term interest-bearing loans	(72)	(100)	(60)	(127)	(113)	(56)
5.3. Cash and cash equivalents	(326)	(371)	(112)	(50)	(41)	(36)
CAPITAL USED	**5,343**	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**

Breakdown of Capital Employed by Business Segments at December 31

	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Capital Employed (*)						
Exploration & Production	509	538	567	566	607	655
Refining, Marketing & Basic Chemicals	3,215	2,912	2,718	2,752	2,561	2,382
Petrochemicals	1,010	1,014	922	934	944	926
Gas & Power	223	247	266	258	94	86
Capital Employed (*)	**4,957**	**4,711**	**4,473**	**4,510**	**4,206**	**4,049**
Net difference Average Cost - LIFO	386	343	164			
Total Capital Employed	**5,343**	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**

(*) 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		
	2006	2005	2004	2004	2003	2002
1. Net fixed assets	82.97%	84.37%	87.16%	90.34%	90.46%	92.79%
2. Working Capital	31.29%	31.43%	24.75%	20.64%	21.56%	19.70%
3. Long-term operating liabilities	(14.26)%	(15.80)%	(11.91)%	(10.98)%	(12.03)%	(12.48)%
Capital Employed	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
4. Permanent resources	101.68%	102.56%	95.76%	95.68%	96.12%	90.54%
5. Net short-term financing	(1.68)%	(2.56)%	4.24%	4.32%	3.88%	9.46%

Tangible Fixed Assets, Intangible Assets and Long-term Financial Investments in Associated Companies (Investments by Business Segments)

		IFRS		SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
						Millions of euros
Exploration & Production	91	76	58	58	67	236
Refining, Transportation & Marketing	340	368	442	402	306	242
Petrochemicals	121	77	29	29	71	219
Technology, Gas & Cogeneration	21	24	40	40	33	3
Corporate Area	8	6	10	10	8	9
Total	**581**	**551**	**579**	**539**	**485**	**709**

Consolidated Statements of Cash Flows for years ended December 31

		IFRS		SPANISH GAAP		
Cash flows from operating activities	2006	2005	2004	2004	2003	2002
						Millions of euros
Cash flows from operating activities (before changes in working capital)	1,180	1,480	1,056	1,007	984	578
Changes in operating working capital	(159)	(459)	(110)	(7)	(214)	(52)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**1,021**	**1,021**	**946**	**1,000**	**770**	**526**
Cash flows used in investing activities						
Capital expenditures	(550)	(414)	(553)	(572)	(415)	(804)
Capital grants received	2	-	2	21	24	14
Proceeds from asset sales	54	54	66	6	79	159
Investments due to changes in consolidated Group		-	-	-	-	-
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES	**(494)**	**(360)**	**(485)**	**(545)**	**(312)**	**(631)**
Cash flows (used in)/from financing activities						
Changes in short or long-term loans	(224)	(96)	(182)	(178)	(220)	293
Cash dividend paid	(346)	(309)	(260)	(260)	(243)	(181)
Total cash flows (used in)/from financing activities	**(570)**	**(405)**	**(442)**	**(438)**	**(463)**	**112**
TOTAL NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(43)**	**256**	**19**	**17**	**(5)**	**7**

Profitability and Equity Ratios at December 31

	IFRS			SPANISH GAAP		
	2006	2005	2004	2004	2003	2002
Return on Average Capital Employed (ROACE) (1)	16.9%	18.5%	14.8%	15.1%	15.1%	12.9%
Return on Average Equity (ROAE) (2)	17.9%	25.6%	20.2%	21.0%	22.6%	19.3%
Return on Average Equity using LIFO (ROAE) (3)	19.0%	22.4%	19.5%	21.0%	22.6%	19.3%
Net income attributable to the parent company / Average number of shares	3.0	3.8	2.6	2.4	2.3	1.7
Net Income attributable to the parent company (LIFO) / Average number of shares	3.0	3.1	2.3	2.4	2.3	1.7
Net Income attributable to the parent company / Net sales revenues	3.92%	5.50%	4.85%	4.43%	4.64%	4.02%
Net Income attributable to the parent company (LIFO) / Net sales revenues	3.84%	4.52%	4.45%	4.43%	4.64%	4.02%
Average financial debt / Cash flow from operating activities (before changes in working capital)	0.5	0.6	0.9	0.9	1.1	1.8
Net interest-bearing debt (includes Internal Allowances) / Shareholders' equity (GEARING)	10.4%	15.6%	27.4%	30.29%	36.56%	59.19%

(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

	IFRS		SPANISH GAAP		
	2006	2005	2004	2003	2002
Brent crude ($/barrel)	65.14	54.38	38.21	28.84	24.98
Refining indicator	3.1	4.8	3.8	3.1	1.4
Exchange rate ($/ €)	1.255	1.245	1.243	1.131	0.945

CEPSA GROUP ADDRESSES

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, 3 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	902 10 22 06
La Rábida Refinery	Polígono Industrial Nuevo Puerto 21810 Palos de la Frontera (Huelva)	959 37 94 00	959 37 94 23

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	91 337 96 36 902 155 156	91 337 96 48

Company/Address	Telephone	Fax
CEPSA LUBRICANTES, S.A. (C.L.S.A.) Avda. Ribera del Loira, 50 28042 Madrid	91 337 60 00	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, 21 38001 Santa Cruz de Tenerife	922 28 30 02	922 27 30 09
CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A. (CEDIPSA) Autovia Castelldefels Km 7,5 08820 El Prat de Llobregat	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

Company/Address	Telephone	Fax
PROMOTORA DE MINIMERCADOS, S.A. (PROMIMER) Avda. del Partenón, 12 28042 Madrid	91 337 59 90	91 337 73 20

Domestic Associates

Company/Address	Telephone	Fax
ASFALTOS ESPAÑOLES, S.A. (ASESA) C/ Orense, 34 – 4ª Planta 28020 Madrid	91 597 04 65	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 31278 64 89898	00 3178 6399625

Company/Address	Telephone	Fax
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
Foreign 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

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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 (U.K.)	00 44 207 831 27 88	00 44 207 831 27 97

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DETEN QUÍMICA, S.A. Rue Hidrogênio, 1744 Complejo Petroquímico de Camaçari 42810-000 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 London EC1N 6SN (U.K.)	00 44 207 253 64 40	00 44 207 253 63 44
ERTISA NETHERLAND B.V. Steegoversloot 64. 3311 PR Dordrecht Netherlands	00 31 78 652 62 00	00 31 78 618 34 45
INTERQUISA CANADÁ, L.P. 10200 Sherbrooke St. East 1HB 1B4 Montreal – Québec - Canada	00 1 514 645 78 87	00 1 514 645 91 15
PETRESA CANADÁ INC. 5250, Boulevard Bécancour Bécancour (Québec) G94 3X3 (Canada)	00 1 819 294 14 14	00 1 819 294 26 26
PETRESA INTERNATIONAL N.V. Boulevard de Waterloo, 39 Hilton Tower Brussels B-1000 (Belgium)	00 322 548 97 10	00 322 514 27 55

Company/Address	Telephone	Fax
GAS & POWER		
CEPSA GAS COMERCIALIZADORA, S.A. Avda. del Partenón, 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, 12 28042 Madrid	91 337 60 00/9561	91 337 95 33
GAS DIRECTO, S.A. Avda. de San Luis, 77 28033 Madrid	91 207 98 27	91 207 98 29
GENERACIÓN ELÉCTRICA PENINSULAR, S.A. (GEPESA) Avda. del Partenón, 12 28042 Madrid	91 337 60 00/9561	91 337 95 33
NUEVA GENERADORA DEL SUR, S.A. Avda. de San Luis, 77 28033 Madrid	91 210 78 77	91 567 60 88

CEPSA

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