

2007 CORPORATE GOVERNANCE REPORT



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2007 CORPORATE GOVERNANCE REPORT

A. OWNERSHIP STRUCTURE

A.1. Share Capital

At December 31, 2007, the fully issued and paid-up share capital of Compañía Española de Petróleos, S.A. (hereinafter referred to as CEPSA) amounted to 267,574,941 euros, divided into 267,574,941 ordinary bearer shares with a par value of 1 euro each, recorded as book entries. All shares carry equal voting and dividend rights and trade on all four Spanish Stock Exchanges in the Continuous Market.

Date of Most Recent Change	Share Capital in Euros	Number of Shares	Number of Voting Rights
June 2, 1999 (*)	267,574,941	267,574,941	267,574,941

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

The Company does not have different classes of shares with different associated rights.

A.2. Significant Shareholdings

At December 31, 2007, the owners of significant direct and/or indirect shareholdings in CEPESA's capital were as follows:

Corporate Name of Shareholder	Number of Direct Voting Rights	Number of Indirect Voting Rights	% of Total Voting Rights
Total, S.A.	0	130,668,180	48.834
Banco Santander	76,832,401	7,849,886	31.648
International Petroleum Investment Company	25,513,560	0	9.535
Unión Fenosa, S.A.	13,378,980	0	5.000

Through:

Direct Owner of Shareholding	Number of Direct Voting Rights	% of Total Voting Rights
Odival ,S.A.	130,668.180	48.834
Total, S.A.	130,668,180	48.834
Banco Madasant Sociedade Unipessoal, S.A.	349,826	0.131
FFB-Participações e Serviços, Sociedade Unipessoal, S.A.	7,500,000	2.803
Títulos de Renta Fija, S.A.	60	0.000
Banco Santander	7,849,886	2.933

Changes in the Company's shareholding structure during the year:

Corporate Name of Shareholder	Date of Transaction	Description of Transaction
Total, S.A.	May 31, 2007	Transfer of 104,435,175 shares of CEPSPA, accounting for 39.03% of its share capital, by ELF AQUITAINE to its wholly-owned subsidiary ODIVAL,S.A., as a result of the subscription by contribution in kind to the corresponding capital increase of ODIVAL, S.A. Therefore, the redistribution of shares among companies belonging to the TOTAL Group involved no change whatsoever in the unit of decision or control.
Total, S.A.	December 28, 2007	ODIVAL, S.A., an indirect subsidiary of TOTAL, S.A. acquired 6,140,550 shares of CEPSPA, representing 2.294% of its share capital, as a result of the merger of CONSTANCE INTERNATIONAL, LTD into ODIVAL,S.A. Both the takeover company, ODIVAL,S.A., and the merged company, CONSTANCE INTERNATIONAL, LTD., are indirectly controlled by TOTAL, S.A., whereby the aforementioned intra-group redistribution of voting rights entails no change whatsoever in the final position of voting rights that TOTAL, S.A. indirectly has in CEPSPA.
Unión Fenosa, S.A.	June 7, 2007	The Annual Meeting of Shareholders of UNION FENOSA, S. A. resolved to undertake a merger with UNION FENOSA INVERSIONES, S. A., a subsidiary that is wholly-owned either directly or indirectly by UNIÓN FENOSA, S.A., meaning that 2.22% of CEPSPA held by UNION FENOSA INVERSIONES, S. A. was integrated into UF. As a result of this transaction, UNIÓN FENOSA, S.A.'s shareholding in CEPSPA subsequently amounted to 2.78%.
Unión Fenosa, S.A.	December 12, 2007	UNIÓN FENOSA, S.A. acquired 2.22% of CEPSPA shares from LIGNITOS DE MEIRAMA, S.A. (LIMEISA), whereby UNIÓN FENOSA, S.A. thereafter became the direct owner of 5% of CEPSPA's share capital.

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

Name of Director	Number of Direct Voting Rights	Number of Indirect Voting Rights (*)	% of Total Voting Rights
Carlos Pérez de Bricio Olariaga	60	0	-
Dominique de Riberolles	100	0	-
José Manuel Otero Novas	500	0	-
Murtadha Al Hashemi	60	0	-
Pedro López Jiménez	100	0	-
Humbert de Wendel	60	0	-
Saeed Al Mehairbi	60	0	-

% of total voting rights held by members of the Board of Directors Less than 0.001%

Members of the Board of Directors holding option rights on shares of CEPSA:

Name of Director	Number of Share Options Held Indirectly	Number of Share Options Held Indirectly	Number of Equivalent Shares	% of Total Voting Rights
No Director has option rights on shares of the Company.	-	-	-	-

A.4. Family, commercial, contractual or corporate relationships among owners of significant shareholdings, insofar as the Company is aware of them, except in cases in which they are immaterial or are the result of routine business

Name of Related Party	Type of Relationship	Brief Description
CEPSA is unaware of the existence of relationships of this nature.	-	-

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

Related Corporate Name	Type of Relationship	Brief Description
TOTAL	Contractual	TOTAL E&P ALGERIE (a subsidiary of TOTAL) and CEPESA have interests in natural gas exploration activities in Algeria, specifically in the Timimoun Basin (85%/15%, respectively).
TOTAL	Corporate	CEPSA and TOTAL have stakes in CEPESA GAS COMERCIALIZADORA (35%/35%, respectively), engaged in the commercialization of natural gas.
TOTAL	Contractual	Technical assistance agreement between CEPESA E.P. (a subsidiary of CEPESA) and TOTAL in oil and natural gas exploration & production activities.
TOTAL	Contractual	Cooperation agreement between PROAS (a subsidiary of CEPESA) and TOTAL regarding R&D activities for bitumen technologies.
TOTAL	Commercial	PROAS (a subsidiary of CEPESA) is the licensee for the manufacture and sale of "Styrelf" products in Spain and Portugal.
TOTAL	Contractual	CEPSA and TOTAL set up the company GAEL for jointly negotiating the purchase of additives and components needed to produce lubricants.
TOTAL	Contractual	CEPSA and TOTAL cooperate on common R&D work in the area of automotive and industrial lubricants through a common technical unit.
TOTAL	Commercial	CEPSA LUBRICANTES (a subsidiary of CEPESA) manufactures certain products for TOTAL in Algeciras, whereas TOTAL manufactures certain products for CEPESA LUBRICANTES in Quiva.
TOTAL	Commercial	CEPSA has chemical product purchase-sale agreements with TOTAL and its affiliates.
UNIÓN FENOSA	Corporate	CEPSA and UNION FENOSA GENERACIÓN (a subsidiary of Union Fenosa, S.A.) have 50% stakes each in NUEVA GENERADORA DEL SUR, which operates a 740 MW combined cycle power plant, the steam by-product of which is reused by CEPESA's Gibraltar-San Roque Refinery.
UNIÓN FENOSA	Corporate	CEPSA and UNION FENOSA GAS (a subsidiary of Union Fenosa, S.A.) have stakes of 40% and 60%, respectively, in GAS DIRECTO, engaged in natural gas distribution.
IPIC	Corporate	CEPSA and IPIC have stakes of 50% each in CEPESA MAGHREB, a company which, through its 70% shareholding in PETROSUD, is involved in marketing energy products in Morocco.
BANCO SANTANDER	Corporate	CEPSA ESTACIONES DE SERVICIO (a subsidiary of CEPESA) and Banco Santander have stakes in TURYOICIO, P.M.S., S.A. (24.75%/24.75% respectively) engaged in establishing, applying, introducing into the market and maintaining schemes aimed at developing, increasing and consolidating customer loyalty.
BANCO SANTANDER	Corporate	CEPSA ESTACIONES DE SERVICIO (a subsidiary of CEPESA) and Banco Santander have stakes in ANEKIS, engaged in providing marketing and advertising services, especially in connection with the management of customer loyalty schemes, as well as data storage and processing services

A.6. Shareholder Agreements

Parties	% of Share Capital Involved	Brief Description of Agreement
CEPSA is unaware of the existence of any agreement or concerted actions among shareholders of the Company.	-	-

A.7. Control of the Company

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

A.8. Treasury Stock

Neither CEPSA nor any of the companies of the Group directly or indirectly purchased shares of Compañía Española de Petróleos, S.A. in 2007, nor did they own any such securities at year-end.

At year-end 2007.

Number of Direct Shares	Number of Indirect Shares	Total % of Share Capital
None	None	0

Breakdown of significant changes, pursuant to the provisions of RD 1362/2007, that took place in the year:

Notification Date	Total Direct Shares Acquired	Total Indirect Shares Acquired	Total % of Share Capital
-	0	0	0

Increase/(decrease) in treasury stock during the period 0

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

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

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

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

A.11. State whether the Annual Meeting has adopted preventive measures against public takeover bids, pursuant to Act 6/2007.

The Annual Meeting of Shareholders of Compañía Española de Petróleos, S.A. has not passed any resolutions regarding the adoption of preventive measures to neutralize or thwart takeover bids, pursuant to Act 6/2007.

B. CORPORATE GOVERNANCE STRUCTURE

B.1. Board of Directors

B.1.1. Maximum and minimum number of Directors pursuant to the Company Bylaws

Pursuant to Article 33 of the Company Bylaws, the Board of Directors shall consist of no less than ten (10) and no more than thirty (30) Directors. At December 31, 2007, the Board of Directors was composed of nineteen (19) members.

Maximum number of directors	30
Minimum number of directors	10

B.1.2. Board of Directors

The configuration of the Board of Directors at December 31, 2007 was as follows:

Name of Director	Name of Company He or She Represents	Position on the Board	Date of First Appointment	Date of Most Recent Appointment	Election Procedure
Carlos Pérez de Bricio Olariaga		Chairman and CEO	20.05.1978	27.05.2005	Annual Meeting
Alfredo Sáenz Abad	Banco Santander	Vice Chairman	18.03.2002	22.06.2007	Annual Meeting
Michel Bénézit	TOTAL, S.A.	Vice Chairman	30.03.2006	23.06.2006	Annual Meeting
Dominique de Riberolles		CEO	20.03.2003	26.06.2003	Annual Meeting
H.R.H. Carlos de Borbón-Dos Sicilias	Independent	Director	29.04.1987	22.06.2007	Annual Meeting
José Luis Leal Maldonado	Independent	Director	31.03.1995	27.05.2005	Annual Meeting
Juan Rodríguez Inciarte	Banco Santander	Director	20.07.1999	28.05.2004	Annual Meeting
Ernesto Mata López	Banco Santander	Director	20.07.1999	28.05.2004	Annual Meeting
Jacques Porez	TOTAL, S.A.	Director	24.01.2002	22.06.2007	Annual Meeting
Fernando de Asúa Álvarez	Banco Santander	Director	24.01.2002	22.06.2007	Annual Meeting
Jean Privey	TOTAL, S.A.	Director	30.05.2002	22.06.2007	Annual Meeting
Bernadette Spinoy	TOTAL, S.A.	Director	20.03.2003	26.06.2003	Annual Meeting
José Manuel Otero Novas	Independent	Director	29.03.2005	27.05.2005	Annual Meeting
Murtadha Al Hashemi	IPIC	Director	23.09.2005	23.06.2006	Annual Meeting
Pedro López Jiménez	UNIÓN FENOSA, S.A.	Director	24.11.2005	23.06.2006	Annual Meeting
Eric de Menten	TOTAL, S.A.	Director	23.06.2006	23.06.2006	Annual Meeting
Patrick Pouyanné	TOTAL, S.A.	Director	22.06.2007	22.06.2007	Annual Meeting
Saeed Al Mehairbi	IPIC	Director	27.09.2007	27.09.2007	Board of Directors
Humbert de Wendel	TOTAL, S.A.	Director	27.09.2007	27.09.2007	Board of Directors

Total number of directors at December 31, 2007

19

Indicate the resignations/departures from the Board of Directors that took place during the year:

Name of Director	Type of Director at the Time of Resignation/Departure	Date of Resignation/Departure
Menno Grouvel	Shareholder representative	22.06.2007
Vincent Méary	Shareholder representative	27.09.2007
Mohamed Nasser Al Khaily	Shareholder representative	27.09.2007

B.1.3. Breakdown of the Board of Directors.

Executive Directors:

Name of Director	Nominating Body	Position in Organizational Structure of the Company
Carlos Pérez de Bricio Olariaga	Nominations and Compensation Committee	Chairman and Chief Executive Officer
Dominique de Riberolles	Nominations and Compensation Committee	Chief Executive Officer and Senior Vice President of Oil Marketing
Total number of executive directors		2
% of total Board		10.5

Non-Executive Shareholder Representative Directors:

Name of Director	Nominating Body	Name of Significant Shareholder that He or She Represents or that Nominated Him or Her
Alfredo Sáenz Abad	Nominations and Compensation Committee	Banco Santander
Michel Bénézit	Nominations and Compensation Committee	TOTAL, S.A.
Juan Rodríguez Inciarte	Nominations and Compensation Committee	Banco Santander
Ernesto Mata López	Nominations and Compensation Committee	Banco Santander
Jacques Porez	Nominations and Compensation Committee	TOTAL, S.A.
Fernando de Asúa Álvarez	Nominations and Compensation Committee	Banco Santander
Jean Privey	Nominations and Compensation Committee	TOTAL, S.A.
Bernadette Spinoy	Nominations and Compensation Committee	TOTAL, S.A.
Murtadha Al Hashemi	Nominations and Compensation Committee	IPIC
Pedro López Jiménez	Nominations and Compensation Committee	UNIÓN FENOSA, S.A.
Eric de Menten	Nominations and Compensation Committee	TOTAL, S.A.
Patrick Pouyanné	Nominations and Compensation Committee	TOTAL, S.A.
Saeed Al Mehairbi	Nominations and Compensation Committee	IPIC
Humbert de Wendel	Nominations and Compensation Committee	TOTAL, S.A.
Total number of non-executive shareholder representative directors		14
% of total Board		73.7

Independent Directors:

Name of Director	Nominating Body	Professional Background
H.R.H. Carlos de Borbón-Dos Sicilias	Nominations and Compensation Committee	Financial expert
José Luis Leal Maldonado	Nominations and Compensation Committee	Financial and economics expert
José Manuel Otero Novas	Nominations and Compensation Committee	Legal expert
Total number of independent directors		3
% of total Board		15.8

Classification of Directors:

In 2007, and as a result of the fact that SOMAEN-DOS is no longer a shareholder of CEPISA, the classification of José Luis Leal Maldonado was changed from a non-executive shareholder representative director to an independent director.

B.1.4. Please state the reasons, where applicable, for the appointment of shareholder representative directors at the request of shareholders whose ownership in the share capital is less than 5%.

No shareholder representative directors were appointed at the request of shareholders whose ownership in the share capital of the Company is less than 5%.

State whether the Board of Directors disregarded formal requests for Board presence made by shareholders whose ownership in the share capital is equal to or greater than others whose call for such presence was met with the appointment of shareholder representative directors.

No requests of this kind were received.

B.1.5. If any Directors left their seats on the Board prior to the completion of their term, please state the reasons thereof.

Name of Director	Reason for Departure
Vincent Méary	Death
Menno Grouvel	Letter to the Chairman stating personal reasons
Mohamed Nasser Al Khaily	Letter to the Chairman stating personal reasons

B.1.6. Powers delegated to the Chief Executive Officers

Name of Chief Executive Officer	Brief Description
Carlos Pérez de Bricio Olariaga	The CEO's delegated powers include those set forth in the Company's Bylaws, as well as other powers delegated by the Board that may be required to govern and represent the Company and to undertake transactions involving ownership, management, negotiation and engagement. CEPESA's two Chief Executive Officers act jointly and severally.
Dominique de Riberolles	The CEO's delegated powers include those set forth in the Company's Bylaws, as well as other powers delegated by the Board that may be required to govern and represent the Company and to undertake transactions involving ownership, management, negotiation and engagement. CEPESA's two Chief Executive Officers act jointly and severally.

B.1.7. Members of the Board of Directors that are likewise board members or executives of other companies that belong to the group of the listed company.

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

B.1.8. Members of the Board of Directors of the Company who are also members of the Boards of Directors of other companies listed on official securities markets in Spain, apart from the Group, that have been notified to the Company

Name of Director	Name of Listed Company	Position
Carlos Pérez de Bricio Olariaga	Compañía Logística de Hidrocarburos, CLH, S.A.	Board member
Alfredo Sáenz Abad	Banco Santander	Second Vice Chairman and CEO
Dominique de Riberolles	Compañía Logística de Hidrocarburos, CLH, S.A.	Chairman
H.R.H. Carlos de Borbón- Dos Sicilias	Reyal-Urbis, S.A.	Board member
Ernesto Mata López	Unión Fenosa, S.A.	Board member-Adjunct to Chairman
	Abertis, S.A.	Board member
	Avanzit, S.A.	Board member
Fernando de Asúa Álvarez	Banco Santander	First Vice Chairman
	Técnicas Reunidas, S.A.	Vice Chairman
Pedro López Jiménez	Unión Fenosa, S.A.	Chairman
	ACS, Actividades de Construcción y Servicios, S.A.	Board member
	Indra Sistemas, S.A.	Vice Chairman

B.1.9. Rules established by the Company regarding the number of boards on which its Directors are allowed to serve.

Article 30 of the Rules and Regulations of the Board of Directors states that: "Directors who perform actions that may involve competition with the Company in its geographical area of business, or that provide his or her professional services as a Director of companies whose total or partial purpose is similar to the Company's or that compete with it in a significant or steady manner, within the aforementioned geographical area, must disclose such actions or services to the Company."

CEPSA does not have any explicit rules limiting the number of boards on which its Directors may serve.

B.1.10. With reference to recommendation 8 of the Unified Code, state the general policies and strategies of the Company that the Board reserves to itself for plenary approval.

	Yes	No
Investment and funding policies		X
Definition of the structure and organization of the Group of Companies		X
Corporate Governance policies	X	
Corporate Social Responsibility policies		X
The strategic business plan and annual management and budgetary targets		X
Executive management compensation and performance appraisal policies		X
Risk control and management policies, as well as the periodic monitoring of internal information and control systems		X
Dividend payout and treasury stock policies, and in particular, their limits		X

B.1.11. Directors' compensation

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

a) In CEPSA.

Thousands of Euros

Compensation Components	
Fixed pay	1,400
Variable pay	717
Attendance fees	354
Bylaw stipulated fees	3,470
Stock options and/or other financial instruments	--
Miscellaneous components	12
TOTAL	5,953

Thousands of Euros

Other Benefits	
Advances	-
Loans granted	-
Pension schemes: contributions	25
Pension schemes: liabilities incurred	1,647
Life insurance premiums	-
Guarantees	-

b) For belonging to the Boards of Directors and/or senior management of other companies of the Group

Thousands of Euros

Compensation Components	
Fixed pay	-
Variable pay	-
Attendance fees	186
Bylaw stipulated fees	135
Stock options and/or other financial instruments	-
Miscellaneous components	-
TOTAL	321

Thousands of Euros

Other Benefits	
Advances	-
Loans granted	-
Pension schemes: contributions	-
Pension schemes: liabilities incurred	-
Life insurance premiums	-
Guarantees	-

c) Total compensation by types of directors:

Thousands of Euros

Types of Directors	From CEPSA	From Other Group companies
Executive	2,737	289
Non-executive shareholder representative	2,926	-
Non-executive Independent	290	32
Other non-executive	--	-
TOTAL	5,953	321

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

Total Directors' compensation (thousands of euros)	6,274
Total Directors' compensation/Consolidated net income attributable to shareholders of the parent company (in %)	0.84

B.1.12. Senior Managers who are not also Executive Directors of the Board.

Name	Position
Fernando Maravall	Senior Vice President – Exploration & Production, Natural Gas & Corporate Management
Ignacio Gómez	Senior Vice President – Corporate Technical Division
Juan Rodríguez-Fidalgo	Senior Vice President – Human Resources, Legal Affairs & Property Asset Management
Fernando Iturrieta	Senior Vice President – Petrochemicals
José María Múgica	Vice President – Supply, Trading, Bunkering & Aviation
Carlos Alcázar	Vice President – Institutional Relations (*)
José E. Aranguren	Vice President – Planning, Control & Distribution
Francisco Calderón	Vice President – Retail/Wholesale Operations
Pedro Miró	Vice President – Exploration & Production
Federico Bonet	Vice President - Specialties

(*) On March 25, 2008, Luis Calderón assumed the position of Vice President of Institutional Relations, replacing Carlos Alcázar.

Total compensation of Senior Managers (in thousands of euros)	5,185
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B.1.13. Guarantee or “golden parachute” clauses for senior managers of the Company or its Group that cover possible dismissals or changes in control.

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

Number of beneficiaries of the aforementioned clauses	9
Body authorizing these clauses	Board of Directors
Is the Annual Meeting informed of such clauses?	No

B.1.14. Explain the process to determine compensation for members of the Board of Directors, and where applicable, the relevant clauses contained in the Company Bylaws.

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

State whether the Board, in a plenary session, has reserved to itself the right to approve the following decisions:

	Yes	No
Upon proposal by the CEO, the appointment and possible dismissal of senior managers, as well as their severance conditions.		X
Directors' compensation, as well as, in the case of Executive Directors, any additional payments for their executive duties and other terms and conditions to be included in their contracts..		X

B.1.15. State whether the Board of Directors approves a detailed compensation policy and explain what decisions it makes in this regard.

Article 32 of the Company Bylaws states that the Board of Directors should be particularly responsible for determining “ordinary and extraordinary rights and remuneration for all the offices, posts and services of the Company, and especially to decide as to the means of distribution among the members of the Board, Executive Committee, Audit Committee and any other committees or subcommittees of the sums assigned for such purposes by the Annual Meeting of Shareholders.”

B.1.16. State whether the Board submits a report on the compensation policy for directors to the Annual Meeting for a consultative vote.

No.

B.1.17. Members of the Board of Directors of the Company that are likewise members of the Boards of Directors or Senior Managers of companies that have significant shareholdings in the listed Company and/or entities of your Group.

Name of Director	Name of Significant Shareholder	Position
Alfredo Sáenz Abad	Banco Santander	Second Vice Chairman & CEO
Michel Bénézit	TOTAL, S.A.	Executive Committee member and President - Refining & Marketing
Juan Rodríguez Inciarte	Banco Santander	General Manager
Ernesto Mata López	Unión Fenosa, S.A.	Director - Adjunct to the Chairman
Jacques Porez	TOTAL, S.A.	Vice President - South and West Europe Division, R&M
Fernando de Asúa Alvarez	Banco Santander	First Vice Chairman
Jean Privey	TOTAL, S.A.	Senior Vice President - Africa, Exploration & Production
Bernadette Spinoy	TOTAL, S.A.	Senior Vice President - Styrenics
Murtadha Al Hashemi	IPIC	Finance Division Manager
Pedro López Jiménez	Unión Fenosa, S.A.	Chairman
Eric de Menten	TOTAL, S.A.	Senior Vice President - Marketing Europe
Patrick Pouyanné	TOTAL, S.A.	Senior Vice President – Strategy, Business Development and R&D – E&P
Saeed Al Mehairbi	IPIC	Manager - Project Management Division
Humbert de Wendel	TOTAL, S.A.	Vice President - Corporate Development, Finance Division

Provide a detailed explanation, where applicable, of significant affiliations or relationships apart from those addressed in the foregoing section, that link Board members to significant shareholders and/or entities of your group.

No affiliations other than those listed above exist between significant shareholders and/or entities of the CEPSA Group.

B.1.18. Modifications introduced during the year in the Rules and Regulations of the Board of Directors.

No modifications or amendments were made during the year to the Rules and Regulations of the Board of Directors.

B.1.19. Procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies, procedures and formalities to be followed and criteria used in each of these procedures.

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

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

B.1.20. Circumstances under which Directors are required to resign.

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

- In the event that they resign from the executive position with which their appointment is connected.
- In the event that they are involved in any of the cases of incompatibility or prohibition legally provided for.
- In the event that they are convicted for a criminal offense.

B.1.21. Measures taken to limit the risks involved in having the offices of Chairperson and Chief Executive Officer held by the same person.

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

State and, where appropriate, explain whether there are rules allowing one of the independent directors to be able to summon a Board meeting or include new items on the agenda so as to coordinate and voice the concerns of non-executive directors and to direct their development by the Board of Directors.

No rules of this kind have been established, although independent directors, as is the case with the rest of the directors, may submit a request to the Chairperson to call a Board meeting or include new items on the agenda.

B.1.22. Qualified or enhanced majorities required on the Board of Directors for certain types of decisions.

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

B.1.23. Specific requirements, apart from those required for Directors, for being appointed Chairperson.

There are no specific requirements for being appointed Chairperson.

B.1.24. Chairperson's casting vote.

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

B.1.25. Age limits for Directors.

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

B.1.26. Limits to the term of office for Independent Directors.

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

B.1.27. In the case of few or no female Directors, explain the reasons thereof and the initiatives adopted to remedy the situation.

Currently, the percentage of female members out of total members of the Board of Directors is 5.3%.

CEPSA does not have any special mechanisms to encourage the selection of its Board members based on gender. Furthermore, the Directors are appointed upon proposal by the shareholders of the Company.

B.1.28. Formal procedures for proxy authorizations and voting at Board meetings.

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

B.1.29. Number of Board Meetings held in the year.

Number of meetings of the Board of Directors	5
Number of meetings of the Board of Directors in the absence of the Chairperson	None

Number of meetings of the Board sub-committees held in the year.

Number of Executive Committee meetings	11
Number of Audit Committee meetings	3
Number of Nomination and Compensation Committee meetings	3

B.1.30. Number of Board meetings held in the year without the attendance of all of its members.

Number of Board meetings without the attendance of all of its members	4
% of total Board meetings	80%
Number of non-attendances by Directors during the year	10
% of non-attendances out of total votes during the year	10,5%

B.1.31. State whether the individual and consolidated financial statements that are presented for the approval of the Board are certified beforehand.

The 2007 Financial Statements for CEP SA and the CEP SA Group were certified by both the Chairman and CEO and the CEO, and Senior Vice President of Oil Marketing. The letter of representation for the independent auditors was also signed by these same persons.

The 2007 financial statements were signed by all the Directors.

Name of Director	Position
Carlos Pérez de Bricio Olariaga	Chairman and Chief Executive Officer
Dominique de Riberolles	Chief Executive Officer and Senior VP of Oil Marketing

B.1.32. Established mechanisms, if any, to prevent individual or consolidated financial statements approved by the Board from being presented to the Annual Meeting with a qualified auditors' report.

No mechanisms of this kind have been established.

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

B.1.33. State whether the Secretary is also a Board Director.

The Secretary of the Board does not hold a Directorship.

B.1.34. Explain the appointment and removal procedures for the Secretary of the Board, indicating whether his/her appointment or removal is notified by the Nominations Committee and approved by the Board in a plenary meeting.**Appointment and Removal Procedure**

Article 39 of the Company Bylaws sets forth that the Board shall also appoint a Secretary and, if appropriate, one or more Vice Secretaries, who shall substitute the former in his or her absence or inability to act. The Secretary as well as the Vice Secretary or Secretaries may or may not be Directors, and therefore, are not required to be Company shareholders.

Does the Nominations Committee report on the appointment?	Yes
Does the Nominations Committee report on the removal?	Yes
Is the Board required to approve the appointment in a plenary meeting?	Yes
Is the Board required to approve the removal in a plenary meeting?	Yes

B.1.35. Mechanisms established by the Company to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

Article 47 of the Bylaws grants the following powers and duties to the Audit Committee: "To handle dealings with independent auditors to receive information on such matters that may jeopardize their independence."

B.1.36. State whether the Company has changed its independent auditing firm during the year.

The Company did not change its independent auditors in 2007.

B.1.37. State whether the firm of auditors provides any non-audit services to the Company and/or Consolidated Group, and if so, state the amount of fees for such work and the percentage it represents of total fees invoiced to the Company and/or Group.

Yes.

	Company	Group	Total
Fees for non-audit services (thousands of euros)	578	49	627
Fees for non-audit services/total amount invoiced by the auditing firm (in %)	57%	5%	32%

B.1.38. State whether the report from the auditors on the financial statements has any reservations or qualifications.

The report from the independent auditors on the 2007 financial statements was issued with no reservations or qualifications whatsoever.

B.1.39. Number of consecutive years that the current auditing firm has conducted audits of the financial statements of the Company and/or its Group. Also state the percentage represented by the number of years audited by the current auditing firm out of the total number of years in which the financial statements were audited.

The information provided below refers to the fiscal years from 1989 (Act 19/1988 of July 12th on Account Auditing, states in its First Additional Provision that it is mandatory for independent audits to be conducted on the financial statements of companies that, meeting certain requisites - one of which is to be a listed company – begin their fiscal years subsequent to the aforementioned date) up to 2007, inclusive.

	Company	Group
Number of consecutive years	19	19
Number of years audited by the current auditing firm/Number of years that the Company has been audited (in %)	90.5	90.5

B.1.40. Significant shareholdings of members of the Board of Directors of the Company in the capital of entities that have the same, similar or complementary type of activity as that of the Company or its Group, and that have been reported to the Company. Likewise, state the positions held or functions performed in such entities.

Name of Director	Company	Holding %	Position
Pedro López Jiménez	Unión Fenosa, S.A.	0.098	Chairman
Fernando de Asúa Álvarez	TOTAL, S.A.	Insignificant	
	ENI	Insignificant	
	ERG	Insignificant	
	GALP ENERGIA	Insignificant	
	REPSOL-YPF	Insignificant	
Michel Bénézit	TOTAL, S.A.	Insignificant	Executive Committee member and President – Refining & Marketing
Juan Rodríguez Inciarte	REPSOL-YPF	Insignificant	
Humbert de Wendel	TOTAL, S.A.	Insignificant	Vice President – Corporate Development, Finance Division
Patrick Pouyanné	TOTAL, S.A.	Insignificant	Senior Vice President – Strategy, Business Development and R&D – E&P

B.1.41. State whether a procedure exists for Directors to be provided with outside counsel or expert assistance.

No specific procedures of this kind exist.

B.1.42. State whether a procedure exists for Directors to be provided with the necessary information to prepare the meetings of governing bodies.

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

B.1.43. State and, where applicable, provide details on whether the Company has established rules or procedures that require Directors to notify and, where applicable, resign in cases in which they may damage or undermine the standing, credibility and reputation of the Company.

Article 37 of the Company Bylaws states that “the duties of office of a Director must be performed with the diligence of a respectable businessman and loyal representative or fiduciary”.

Furthermore, Article 26 of the Rules and Regulations of the Board of Directors states as follows: “Notwithstanding what is provided for by law, the Directors must relinquish their seats to the Board and formalize, if this body deems it advisable, the corresponding resignation in the following cases:

- In the event that they resign from the executive position with which their appointment is connected.
- In the event that they are involved in any of the cases of incompatibility or prohibition legally provided for.
- In the event that they are convicted for a criminal offense.”

B.1.44. State whether any of the Board members has notified the Company of being involved in a lawsuit or if any court proceedings have been filed against him or her for any of the offences listed in Article 124 of the Corporations Act.

The Company is unaware of any of its Board members being the target of any lawsuit or involved in any court proceedings for any of the offenses appearing in Article 124 of the Corporations Act.

B.2. Board Committees.

B.2.1. List all the Board committees and their members.

Executive Committee:

Name	Position	Type of Director
Carlos Pérez de Bricio Olariaga	Chairman	Executive
Alfredo Sáenz Abad	Vice Chairman	Non-Executive Shareholder Representative
Michel Bénézit	Vice Chairman	Non-Executive Shareholder Representative
Dominique de Riberolles	Member	Executive
Eric de Menten	Member	Non-Executive Shareholder Representative
Bernadette Spinoy	Member	Non-Executive Shareholder Representative
Saeed Al Mehairbi	Member	Non-Executive Shareholder Representative

Audit Committee:

Name	Position	Type of Director
Fernando de Asúa Álvarez	Chairman	Non-Executive Shareholder Representative
Saeed Al Mehairbi	Member	Non-Executive Shareholder Representative
Humbert de Wendel	Member	Non-Executive Shareholder Representative

Nominations and Compensation Committee:

Name	Position	Type of Director
Carlos Pérez de Bricio Olariaga	Chairman	Executive
Alfredo Sáenz Abad	Vice Chairman	Non-Executive Shareholder Representative
Michel Bénézit	Vice Chairman	Non-Executive Shareholder Representative

B.2.2. State whether the following duties and responsibilities are assigned to the Audit Committee:

	Yes	No
To supervise the preparation and integrity of the financial information for the Company, and, where applicable, its group of companies, reviewing compliance with regulatory requirements and legal provisions, the scope of the consolidation perimeter and the correct application of accounting principles.	X	
To periodically review the internal control and risk management systems so that key risks can be properly pinpointed, managed and reported on.		X
To ensure the independence and efficacy of internal audit; propose the selection, appointment, re-appointment and, where applicable, removal of the internal audit manager; propose a budget for the internal audit service; receive periodic information on its activities; and ensure that senior management is aware of the conclusions and recommendations contained in such reports.	X	
To establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously report any irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.		X
To submit to the Board proposals for selection, appointment, re-appointment and replacement of the independent auditors and the terms and conditions of their engagement.	X	
To regularly receive information from the independent auditors on the audit plan and the the progress and outcome of its execution, verifying that senior management is duly aware of its recommendations.	X	
To ensure the independence of the externally-hired auditing firm.	X	
In the case of groups of companies, to help the group auditors take charge of the audits of the companies belonging to the group.	X	

B.2.3. Description of the rules of organization and procedure, as well as duties and responsibilities, assigned to each of the Board committees.

The Executive Committee meets periodically, generally once a month, in ordinary meetings, and may meet for special purposes whenever called by the Chairman or at the request of the majority of its members. Its duties are to directly adopt executive decisions on all such matters that have been expressly delegated to it by the Board, and furthermore, to deliberate and formulate proposals and motions to the Board on the remaining matters that come under this body's authority.

The Audit Committee meets at least on a quarterly basis to deal with matters coming under its authority: to report, at the Annual Meeting of Shareholders, on any matters that may properly be brought before such Meeting in connection with its duties and responsibilities; to propose to the Board of Directors, for approval of the Annual Meeting, the appointment of Independent Auditors, their contractual conditions, the scope and extent of their professional duties, where appropriate, the cancellation or renewal of their term; to supervise the internal auditing services of the Company; to oversee the financial information processes and internal control systems of the company; to handle dealings with independent auditors to receive information on such matters that may jeopardize their independence and any other matters related to the process of auditing the financial statements, as well as any other notifications provided for in account auditing legislation and technical auditing standards; to oversee compliance with laws and regulations regarding financial information and ensure that the quarterly financial statements of the parent company CEPSA and the CEPSA Group reported to the Board of Directors are consistent with the communication released to markets; to report to the Board of Directors on the performance and results of their work; and, generally speaking, to examine and study any activity or matter that the Board of Directors may determine to be related to the above.

The Nominations and Compensation Committee, on the other hand, does not meet on a regular basis, given that its functions do not require it to do so. In all cases, advance notices are sent to convene the meetings of these Committees, accompanied by their respective agendas, and where applicable, the documents required to discuss certain matters. Its duties are to provide information and formulate proposals and recommendations regarding nominations, re-elections, removals and compensation of members of the Board of Directors, as well as on the general compensation and incentive policies for Board members and Senior Managers of the Company, and to formulate reports and proposals to the Board on the decisions to be adopted in the event of a conflict of interest.

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

Name of Committee	Brief Description
Executive Committee	The delegation of powers of the Board of Directors to the Executive Committee comprises all matters that come under the Board's authority, except those that according to laws in force and the Company's Bylaws are non-transferable.
Audit Committee	The powers assigned to this Committee are set out in section B.2.3
Nomination and Compensation Committee	The powers assigned to this Committee are set out in section B.2.3

B.2.5. Indicate, where applicable, if there are any rules and regulations for the Board Committees, where they are available for consultation and any changes or amendments made during the year. Likewise indicate whether an annual report on the activities of each Committee has been prepared on a voluntary basis.

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

All of these documents are available through CEPSA's Shareholder Service Office, Avenida del Partenón, 12, 28042 Madrid, at the toll-free telephone number 900 10 12 82, at the e-mail address oficina.accionista@cepsa.com or through the company's website at: http://www.cepsa.com/corporativo/pages/c_3_3.htm.

CEPSA has not prepared an annual report on the activities of each Committee.

B.2.6. State whether the composition of the Executive Committee reflects the proportions of the different types of Directors on the Board.

Yes.

C. RELATED-PARTY TRANSACTIONS

C.1. State whether the Board, in a plenary session, has reserved itself powers to approve, based on a favorable report from the Audit Committee or any other entrusted with such a task, the transactions in which the Company engages with its directors, significant shareholders or shareholders with Board representation, or parties related to them:

No.

C.2. Relevant transactions made during the year that involve a transfer of resources or obligations between companies or entities of the Group and the Company's significant shareholders.

Name of Significant Shareholder	Group Company	Nature of Relationship	Type of Transaction	Amount (Euros)
BANCO SANTANDER	CEPSA	Commercial	FX transactions	Purchase-sale of foreign currencies in cash transactions for an exchange value of €472.2 million. In FX swap transactions (spot purchase + forward sale) associated with short-term financing, the average annual balance of arranged transactions pending maturity came to €14.3 million euros, with an outstanding balance at year-end of €69.7 million.
			Bank accounts	Average balance in the year was €35.8 million.
			Loans and credits	Average balance in the year was €121 million, with a cost of €6.2 million. The total amount of credit available at the end of the year came to €367.9 million and the amount drawn, to €189.6 million.
			Guarantees	The average risk for guarantees in 2007 amounted to €75.3 million, with a cost of €0.17 million. The risk came to €76.2 million euros at the end of the year, with a risk limit of €175 million euros.
			Banking services	The amount paid, including commissions for the use of cards in the retail network, amounted to €5.6 million.
			Interest rate hedging	In 2007, no hedging transactions were carried out with regard to interest rates on long-term debt.
TOTAL GROUP	CEPSA	Commercial	Purchases, sundry services and expenditures	Purchases amounting to €405.1 million; €1.9 million in sundry services and expenditures.
			Sales, sundry services and revenues	Sales amounting to €251.9 million; €5.3 million million in sundry services and revenues.
UNION FENOSA, S.A.	CEPSA	Commercial	Purchases, sundry services and expenditures	Purchases amounting to €59.5 million.
			Sales, sundry services and revenues	Sales amounting to €5.2 million; €1.6 million in sundry services and revenues.

C.3. Relevant transactions involving a transfer of resources or obligations between the Company or entities of its Group, and the Directors or Senior Managers or the Company.

None.

C.4. Relevant transactions made by the Company with other companies belonging to its same Group provided they are not eliminated in the process of consolidation and are not part of the Company's routine business.

None.

C.5. Conflicts of interests that Directors may be involved in, pursuant to Article 127.3 of the Corporations Act.

None.

C.6. Mechanisms established to identify, determine and settle possible conflicts of interests between the Company and/or its Group and its Directors, Senior Managers or significant shareholders.

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

C.7. Is more than one company of the Group listed on the securities market?

No.

D. RISK-CONTROL SYSTEMS.

D.1. Risk policies of the Company and/or Group, listing and evaluating the risks covered by the system, along with an explanation of the extent to which such systems are tailored to the profile of each type of risk.

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

Each year, CEPSA publishes a "Sustainability Report" that contains, among other matters, a broad and detailed description of the actions carried out by the CEPSA Group in social, economic and environmental areas and its contribution to sustainable development throughout the year. The 2006 Report, prepared using international AA1000 assurance standards and subsequently audited, was granted "In Accordance B+" status by the Global Reporting Initiative (GRI).

D.2. Risks arising in the year.

No material asset or equity losses occurred during the year. On the other hand, doubtful trade debts have hardly had any impact on the Company's accounts receivable and the appropriate allowances were made in this connection.

The implementation of ongoing improvements in risk control systems is enabling the CEPSA Group to steadily reduce the frequency of accidents, particularly in the area of occupational safety, and noteworthy is that the frequency rate (number of lost-workday injuries for each million hours worked) fell from 5.63 at December 31, 2006, to 4.94 at the end of 2007, meaning a year-on-year decline of 12%.

D.3. Committee or other governing body in charge of establishing and supervising control mechanisms.

The Executive Committee, the Chairman of the Board of Directors and Chief Executive Officer, the Chief Executive Officer and Senior VP of Oil Marketing, as well as the Executive Management of the different business divisions, supervise and control risks, and adapt, wherever feasible, their profile

to prevailing circumstances. In the area of Environmental Affairs, Safety and Quality, CEPSA's P.A.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 CEPSA Group has established risk control systems that may affect the development of the Company's investments and activities and which are consistent with the Group's risk profile. The key risks encompassed in the "Control System" are as follows:

Asset risks:

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

Customer credit risks:

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

Financial, exchange and interest rate risk:

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

rate, taking into account its low level of debt compared to its consolidated equity and likewise because it believes this will entail a lower cost over the long run.

Risk prevention and safety:

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

Environmental risks:

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

Likewise, CEPESA considers risk analysis and assessment to be essential tools and a core factor in identifying hazards and evaluating their risks, measuring how likely they are to occur and what their repercussions could be. Efforts are continually made to prevent risks where they may arise, planning the tasks that are needed to achieve optimum safety performance and ongoing improvement in risk-related areas. Accordingly, the UNE 15008 Ex standard for environmental risk evaluation and assessment, is being implemented in all of CEPESA's refineries and petrochemical plants.

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

- Air emissions – Internal management procedures are applied and measuring stations are used to control emissions, whose data are reported to the authorities in real time.
- Water discharges – Procedures are followed to manage these discharges; systems to control wastewater parameters are applied, whose data are provided to the authorities in real time; and measures are implemented to control the receptor medium, both as regards waters and sediments.

- Soils/Groundwater – All the Group’s industrial plants have piezometer networks to monitor the condition of soils and groundwater, in order to avoid contamination risks.
- Crude oil exploration & production – In its upstream operations in Algeria, CEPESA applies stringent environmental principles, guidelines and strategies to minimize the impact of its activities.

Risks related to crude oil prices and trading operations:

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

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

D.4. Description of the processes of compliance with regulations that affect the Company and/or the Group.

The energy sector in which CEPESA conducts its businesses is basically governed by Hydrocarbons Act 34/1998 of October 7th; RDL 15/1999 of October 1st, approving measures to deregulate the market, implement structural reforms and increase competition in the oil and gas sector; RD 2.111/1994, of October 28th, establishing the Corporation of Strategic Reserves (CORES) and regulating the requirement to maintain minimum buffer stocks of petroleum products; RD 398/1996 of March 1st and subsequent regulations on automotive gasoline and diesel specifications; RDL 6/2000 of June 23rd which, among other measures, limits the maximum shareholding in the capital of Compañía Logística de Hidrocarburos, S.A. (CLH); Act 9/2006, of April 28th on the evaluation of the effects of certain environmental plans and programs; RD 61/2006 of January 31st setting gasoline, diesel, fuel oil and LPG specifications and regulating the use of certain bio-fuels and the sulfur content in specific marine fuels; RD 679/2006, of June 2nd, regulating used oils management; RD 777/2006 of June 23rd amending RD 1866/2004 of September 6th, which approves Spain’s plan to assign emission trading rights for the 2005-2007 period; RD 1370/2006 of November 24th, which approves Spain’s GHG emission trading allowances for 2008-2012; EU Council Decision of October

14, 2004, regarding the signature, on behalf of the European Community, of the Stockholm Convention on Persistent Organic Pollutants; European Commission Decision of March 2, 2006, establishing a questionnaire relating to Council Directive 96/61/EC concerning integrated pollution prevention and control (IPPC); and European Commission Decision 2006/944/EC of December 14, 2006, determining the respective emission levels allocated to the Community and each of its Member States under the Kyoto Protocol pursuant to Council Decision 2002/358/EC.

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

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

E. SHAREHOLDER MEETINGS

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

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

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

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

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

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

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

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

- Resolutions shall be adopted by a majority vote.

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

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

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

The following measures, among others, have been adopted:

- To provide information on an ongoing basis through the Shareholder Service Office.
- To reply to requests that, in using their legally-recognized rights to information, shareholders make in writing in due time prior to the date of the AGM.
- To distribute, as of the time that the AGM notice is published, the annual report and any other legally-required information at the Company's head offices, its branch offices and in venues specifically arranged for this purpose.
- To provide free parking at the venue of the AGM for shareholders who use their own vehicles.
- To offer a complimentary gift item to shareholders present in person or by proxy at the AGM.

E.5. State whether the Chairperson of the Annual Meeting is likewise the Chairperson of the Board of Directors. Measures adopted to guarantee the independence and proper conduct of Annual Meetings.

The Annual Meeting is presided by the Chairman of the Board, whose actions shall comply with applicable legislation, the provisions of the Corporate Bylaws and the Rules and Regulations for Shareholder Meetings which describes the working procedures of the Annual Meeting.

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

None.

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

AGM Date	% of Shareholders Present in Person	% of Shareholders Represented by Proxy	% of Electronic Votes	% of Distance Votes	Total
June 22, 2007	58.42	37.59	0	0	96.01

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

2007 Annual General Meeting of Shareholders (the only AGM held in the year):

Date and Venue:

June 22, 2007, on first call, in Madrid, Auditorium "B" of the Municipal Convention Center, Avda. De la Capital de España Madrid, s/nº (Campo de las Naciones), 28042 Madrid.

Attendance:

A total of 2,956 shareholders were present in person or represented by proxy, owning 256,891,882 shares, equivalent to 96.01% of the share capital.

Resolutions adopted:

Summary of Proposals Submitted to a Vote of Shareholders	Votes in Favor	Votes Against	Abstentions
To study and approve the 2006 Financial Statements and Management Discussion & Analysis for CEPSA and its Consolidated Group, as well as the Proposal for CEPSA's Profit Distribution and the Company's executive management.	256,888,212	0	3,670
To accept the resignation of Jean Marie Menno Grouvel	256,885,005	0	6,877
To appoint Patrick Pouyanné as a Director of the Company, in order to fill the vacancy caused by the resignation of Mr. Grouvel	256,781,523	19,151	91,208
To ratify the appointment of Eric de Menten as a Director of the Company	256,781,523	19,151	91,208
To re-elect H.R.H. Carlos de Borbón Dos Sicilias as a Director of the Company	256,772,835	115,377	3,670
To re-elect Mohamed Nasser Al Khaily as a Director of the Company	256,888,212	0	3,670
To re-elect Jacques Georges Charles Porez as a Director of the Company	256,888,092	120	3,670
To re-elect Fernando de Asúa Álvarez as a Director of the Company	256,888,092	120	3,670
To re-elect Alfredo Sáenz Abad as a Director of the Company	256,888,092	120	3,670
To re-elect Jean Henry Pierre Privey as a Director of the Company	256,888,092	120	3,670
To reappoint Deloitte, S.L., for a one-year period, as the independent auditors to examine and review the 2007 financial statements for CEPSA and its Consolidated Group	256,888,092	0	3,790
To approve the Merger Plan between Compañía Española de Petróleos, S.A. as the takeover company and ETBE Huelva, S.A. as the target company	256,888,212	0	3,670
To delegate powers to the Board of Directors, or the person or persons on the Board that it may so designate, to notarize the resolutions passed at the Annual Meeting by a public deed.	256,888,005	0	6,877

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

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

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

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

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

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

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

The Corporate Governance Report can be obtained either directly at the AGM, by requesting it via postal mail from the Shareholder Service Office, CEPSA, Avenida del Partenón 12, 28042 Madrid, by calling the toll-free telephone number 900 10 12 82, by e-mail at oficina.accionista@cepsa.com, or by logging on to the Company's website at " www.cepsa.com", "information for shareholders", "corporate governance", "Corporate Governance Report", http://www.cepsa.com/corporativo/pages/c_3_3_9.htm.

F. LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Recommendation 1.- The Corporate Bylaws should not impose an upper limit on the votes that can be cast by a single shareholder, or impose other restrictions that could hinder the takeover of the Company by means of share purchases on the securities market.

The Company complies with this recommendation.

Recommendation 2.- Whenever a parent and its subsidiary company are listed on the Stock Exchange, both should clearly define

- a) The type of business or activity they each engage in and any business dealings between them, as well as between the subsidiary and other group companies.
- b) The mechanisms in place to ultimately settle possible conflicts of interest.

Not applicable.

Recommendation 3.- Even when mercantile legislation does not expressly require it, any decisions involving a structural or corporate change in the Company should be submitted to the Annual General Meeting for approval, particularly the following:

- a) The transformation of listed companies into holding companies through the process of “subsidiarization”, i.e., reassigning to subsidiaries core activities that were previously carried out by the originating firm, even though the latter retains full control of the former;
- b) The acquisition or sale of key operating assets, whenever this would effectively alter the corporate purpose;
- c) Transactions that effectively add up to the Company's liquidation.

The Company complies with this recommendation.

Recommendation 4.- Detailed proposals of the resolutions to be adopted at the Annual Meeting, including information referred to in Recommendation 28, should be disclosed and made available at the same time as the publication of the AGM notice.

The Company complies with this recommendation.

Recommendation 5.- Separate votes should be cast at the AGM on materially separate issues, so that shareholders may express their preferences in each case. This rule should particularly apply in the following cases:

- a) The appointment or ratification of directors, with separate voting on each candidate;
- b) In the case of amendments to the Bylaws, each article or groups of articles that are materially separate should be voted on individually.

The Company complies with this recommendation.

Recommendation 6.- Companies should allow split votes so that brokers or custodians who are shareholders of record and but act on behalf of different clients can issue their votes according to the instructions of such clients.

The Company complies with this recommendation.

Recommendation 7.- The Board of Directors should perform its duties with unity of purpose and independent judgment, affording all shareholders the same treatment and consideration. It should be guided at all times by the Company's best interests and accordingly, strive to maximize its value over time.

It should likewise ensure that the Company abides by applicable laws and regulations in its dealings with stakeholders; fulfils its obligations and covenants in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has voluntarily adhered to.

The Company complies with this recommendation.

Recommendation 8.- Board's core mission should be to approve the Company's strategy and the organization needed for its implementation, as well as to oversee and ensure that Management meets the designated goals and objectives and pursues the Company's interests and corporate purpose. Accordingly, the Board should fully reserve to itself the rights and powers to approve:

- a) The policies and strategies of the Company and in particular:
 - I) The strategic or business plan, as well as annual management and budgetary targets;
 - II) Investment and funding policies;
 - III) The definition of how the companies of the Group should be structured;

- IV) Corporate governance policies;
- V) Corporate social responsibility policies;
- VI) Executive management compensation and performance appraisal policies;
- VII) Risk control and management policies, as well as the periodical monitoring of internal information and control systems.
- VIII) Dividend pay-out and treasury stock policies, in particular with regard to their limits.

b) The following decisions:

- I) At the proposal of the Company's CEO, the appointment and possible removal of senior managers, as well as their severance conditions;
- II) Directors' compensation, and any additional compensation to executive directors for their executive duties and responsibilities and other terms and conditions included in their contracts;
- III) Financial information that the Company, as a listed company, is required to disclose;
- VI) Any and all kinds of investments and/or transactions that, due to their amount or special features, may be regarded as strategic, except where the AGM is specifically entrusted with the task of approving them;
- VII) Creation or acquisition of shares in special-purpose entities or with registered offices in countries or territories considered to be tax havens, as well as any other transactions or operations of a similar kind whose complexity may jeopardize or undermine the Group's transparency.

c) Transactions between the Company and its directors, its significant shareholders and/or shareholders with Board representation, or parties related to them ("related-party transactions").

Nevertheless, this Board authorization may not be required in related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard contracts applied on an across-the-board basis to a large number of clients and customers;
2. They are made at market rates that are generally set by suppliers of goods and services;
3. They are worth less than 1% of the Company's yearly revenues.

The aforementioned powers assigned to the Board may not be delegated with the exception of those mentioned in b) and c), which may be delegated to the chosen Committee in urgent cases and subsequently ratified by the Board in a plenary meeting.

The Company does not comply with this recommendation.

According to Article 47 of the Corporate Bylaws, the Executive Committee shall have powers to directly adopt executive decisions on all such matters that have been expressly delegated to it by the Board, and furthermore may deliberate and draw up motions on the remaining matters that come under the authority of the Board.

Moreover, Article 16 of the Rules and Regulations of the Board of Directors sets forth that the Chairperson of the Executive Committee shall be required to report to the Board of Directors on matters dealt with and decisions adopted in its meetings, and, especially, when dealing with matters that are exclusively under the authority of the Board of Directors as provided for in the By-laws, it shall be required to immediately report to the Board on actions it may have taken on the aforementioned matters using the powers delegated to it.

The permanent delegation of powers by the Board of Directors to the Executive Committee shall comprise all or part of the powers of the Board, except those that are non-transferable by law or the Company Bylaws. In those cases in which, in the opinion of the Chairperson or at least one-third of the members of the Executive Committee, the importance of the matter so requires, the resolutions adopted by the Committee, without prejudice to their executive nature, shall be submitted for ratification of the Board; the same shall be applied in connection with those matters that the Board may have provided to the Executive Committee for its review and on which it has reserved the final decision.

Recommendation 9.- The Board of Directors should be the right size to make it work effectively and encourage the greatest participation of its members, and therefore it would be advisable to have no less than five and no more than fifteen members.

The Company does not comply with this recommendation.

The Company Bylaws stipulate that the Board of Directors shall have a number of members ranging from a minimum of 10 to a maximum of 30, with 19 being the number of Directors at year-end, as approved by the Annual Meeting.

The permanent delegation of powers to an Executive Committee made up of 7 Directors who meet practically once a month, a delegation that includes all the powers assigned to the Board, except those that are non-transferable by law or the Company Bylaws, allows for greater effectiveness and agility in the working procedures of this governing body. By means of the aforementioned delegation, the Board of Directors, whose periodic meetings do not take place with the same frequency and taking into account the different nationalities of its members, is duly informed by the Executive Committee of all the resolutions and proposals made therein.

Recommendation 10.- In the Board's composition, non-executive shareholder representative and independent directors should represent a broad majority of the Board members and the number of executive directors should be the minimum required, consistent with the complexity of the corporate Group and the percentage of the share capital held by executive directors.

The Company complies with this recommendation.

Recommendation 11.- If there are any non-executive directors who cannot be classified as shareholder representative or independent, the Company should explain the reasons thereof and their ties with either the Company, its executive managers and/or its shareholders.

The Company complies with this recommendation.

Recommendation 12.- Among non-executive directors, the ratio between shareholder representative and independent directors should reflect the existing proportion between the share capital represented by shareholder-representative directors and the remaining share capital.

The strict interpretation of this principle of proportionality may be relaxed so that the percentage of shareholder representative directors is in fact greater than what would strictly correspond to the total percentage of capital they represent, in the following cases:

1. In large-cap companies where few or no equity holdings attain the legal threshold for being considered significant shareholdings, despite the considerable sums actually invested.
2. Whenever this involves companies in which a plurality of shareholders are represented on the Board but such shareholders otherwise have no ties among them.

The Company complies with this recommendation.

Recommendation 13.- Independent directors should account for at least one third of the total number of Board members.

The Company does not comply with this recommendation.

At 2007 year-end, the Company had 3 independent Directors, out of a total of 19 members, meaning 15.8% of total Board members. This ratio may be assumed to be reasonable if we bear in mind that more than 94% of the share capital is directly or indirectly held by 4 shareholders with Board representation.

Recommendation 14.- The Board should explain the type of each directorship to the Annual Meeting of Shareholders requested to appoint these directors or ratify their appointment. This should be confirmed or reviewed on a yearly basis in the Corporate Governance Report, after being verified by the Nominations Committee. This report should likewise disclose the reasons for the appointment of shareholder representative directors at the request of shareholders whose stake in the Company's share capital is less than 5%; and it should furthermore explain the reasons for rejecting, where applicable, formal requests for Board presence made by shareholders whose equity stakes are equal to or greater than those of others who were indeed granted shareholder-representative directorships.

The Company complies with this recommendation.

Recommendation 15.- If there are few or no female directors, the Board should explain the reasons thereof and the initiatives taken to remedy this situation, and in particular, the Nominations Committee should take the proper steps to ensure that, whenever vacancies arise:

- a) The selection process for filling such vacancies has no hidden gender bias;
- b) The Company makes a conscious and deliberate effort to include women candidates who meet the desired professional background and requisites.

The Company partially complies with this recommendation.

There is one female director serving on CEPESA's Board, accounting for 5.2% of the total of 19 members. The Executive Committee likewise has one female director, which represents 14.3% of the total of 7 members.

Recommendation 16.- The Chairperson, who is responsible for ensuring that the Board runs smoothly and efficiently, should strive to guarantee that all the Board members receive sufficient information prior to the meetings; encourage the directors to engage in discussion and actively participate in the meetings, safeguarding their freedom to take a stand on the issues brought before them and to express their opinions; and organize and coordinate regular and timely evaluations of the Board, or where appropriate, of the Company's Chairman or Chief Executive Officer, with the chairpersons of the respective Board sub-committees.

The Company partially complies with this recommendation.

Taking into account the high caliber, expert background and extensive knowledge of all the Board members, the Company believes that there is no need to carry out a yearly performance appraisal of the Board, its Chairman and CEO, or its CEO.

Recommendation 17.- Whenever the chairperson of the Board is also the Company's chief executive officer, one of the independent directors should be authorized to request that a Board meeting be summoned or to include new items on the agenda; coordinate and voice the concerns of non-executive directors and oversee the Board's evaluation of its chairperson.

The Company does not comply with this recommendation.

The Chairman of the Board calls the Board meetings. Notwithstanding, all directors, whether independent or shareholder representative, may request that a meeting of the Board of Directors be called or include new items on the agenda, as well as coordinate and voice the concerns of non-executive directors. Given the Chairman's prominent standing and reputation and his specialized background and expertise, the Company believes that a yearly performance appraisal is not warranted.

Recommendation 18.- The Corporate Secretary should do his best to ensure that the Board's actions:

- a) Abide by the spirit and letter of the law and their enforcing regulations, including those issued by regulatory agencies;
- b) Meet the provisions of the Corporate Bylaws and the Rules and Regulations for Shareholder Meetings, the Board of Directors and any others that the Company may have;
- c) Keep in mind any recommendations on good corporate governance contained in this Unified Code that the Company has adhered to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nominations Committee and approved by the Board in a plenary meeting; and furthermore, the appointment and removal procedure should clearly be specified in the Rules and Regulations of the Board of Directors.

The Company partially complies with this recommendation.

The Board is currently reviewing the possible inclusion of a procedure to appoint and remove the Corporate Secretary in the Rules and Regulations of the Board of Directors.

Recommendation 19.- The Board should meet as frequently as needed to properly carry out its functions, following a pre-established schedule of meetings and issues drawn up at the beginning of the year, allowing each director to propose the inclusion of additional unforeseen items on the agenda.

The Company complies with this recommendation.

Recommendation 20.- Non-attendance at Board meetings should be limited to strictly unavoidable circumstances and should be specified in the Annual Corporate Governance Report. Whenever proxies are required, they should be granted with the proper voting instructions.

The Company complies with this recommendation.

Recommendation 21.- Whenever the Secretary or directors express concerns about a specific proposal or, in the case of directors, on the progress of the Company and such concerns are not resolved within the Board, the person expressing them may request that they be recorded in the minutes.

The Company complies with this recommendation.

Recommendation 22.- The Board, in a plenary meeting, should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the Board's stewardship;
- b) Based on a report submitted by the Nominations Committee, how well the Chairman and Chief Executive Officers have carried out their duties;
- c) The performance of the sub-committees on the basis of the reports provided by such committees.

The Company does not comply with this recommendation.

Given the high caliber, expert background and knowledge and qualifications of all the Board members, the Company believes that a yearly performance appraisal of the Board is unwarranted.

Recommendation 23.- All directors should be able to exercise their rights to receive any additional information they require on matters that come under the Board's authority. Unless the Bylaws or Board regulations determine otherwise, such requests should be addressed to the Chairperson or the Secretary.

The Company complies with this recommendation.

Recommendation 24.- All the directors should be entitled to rely on the Company for the counsel and guidance needed to perform their duties. Furthermore, the Company should provide the suitable channels for the directors to exercise this right, which under special circumstances may include external counsel or assistance at the Company's expense.

The Company partially complies with this recommendation.

According to the Rules and Regulations of the Board of Directors, only the Audit Committee is entitled to request this external counsel and assistance.

Recommendation 25.- Companies should establish an induction program to familiarize new directors with the Company, and its corporate governance rules, as promptly and broadly as possible. Companies should also offer their directors refresher or professional development programs whenever circumstances so advise.

The Company complies with this recommendation.

The Office of the Corporate Secretary provides each new director with the following information: Annual Report; Corporate Governance Report; Corporate Social Responsibility Report; Corporate Bylaws; Rules and Regulations of the Shareholders Meetings, Board of Directors and Audit Committee; and the Internal Rules of Conduct. Additionally, the Office of the Secretary remains at the disposal of all the directors to provide any further information on the Company that they may require, as well as provide them with refresher programs or courses.

Recommendation 26.- Companies should require directors to dedicate sufficient time and effort to their Board duties in order to ensure they are performed effectively and therefore:

- a) Directors should inform the Nominations Committee of their other professional obligations, in case these interfere with the dedication and commitment required for their duties on the Company's Board;
- b) Companies should lay down rules on the number of Boards their directors are allowed to serve on.

The Company does not comply with this recommendation.

Given the commitment and dedication of all the Board members, the Company believes that establishing rules to limit the number of Boards they can serve on is unwarranted.

Recommendation 27.- The proposal to appoint or re-elect directors submitted to the Annual Meeting by the Board, as well as provisional appointments by co-option, should be approved by the Board:

- a) Upon proposal by the Nominations Committee with regard to independent directors.
- b) On the basis of a report from the Nominations Committee in the case of the remaining Board members.

The Company complies with this recommendation.

Recommendation 28.- The Company should make the following information on its directors available on its website and keep it permanently updated:

- a) Professional and biographical background;
- b) Other Boards on which they serve, whether or not they belong to listed companies;
- c) An indication as to whether the directorship is executive, shareholder representative or independent, stating, in the second case, the shareholder which they represent and to whom they are affiliated;
- d) The date of their first and subsequent appointments, and;
- e) Shares and/or share options held in the Company.

The Company complies with this recommendation.

Recommendation 29.- Independent directors should not serve as such for more than 12 consecutive years.

The Company complies with this recommendation.

Recommendation 30.- Shareholder representative directors should resign whenever the shareholders they represent sell their entire stake in the Company. In the event that such shareholders reduce their stakes, the number of shareholder representatives they are entitled to should likewise be reduced in the same proportion.

The Company complies with this recommendation.

Recommendation 31.- The Board of Directors should not propose the removal of any independent director prior to the completion of his or her term of office as specified in the Bylaws, except where just cause is determined by the Board, based on a report from the Nominations Committee. In particular, just cause will be presumed whenever the director is in breach of his or her fiduciary duties or has engaged in any of the circumstances listed in section III.5 (Definitions) of this Code.

The removal of independent directors may also be proposed whenever takeover bids, mergers or similar corporate transactions lead to changes in the shareholding structure of the Company, in order to meet the proportionality criteria set out in Recommendation 12.

The Company complies with this recommendation.

Recommendation 32.- Companies should establish rules requiring directors to inform the Board, and where applicable, resign under any circumstances that may jeopardize the credibility and good standing of the Company and in particular, require that they report any criminal charges brought against them, and the status of any subsequent court or legal proceedings.

The Company complies with this recommendation.

Recommendation 33.- All directors should clearly express their disagreement or disapproval whenever they believe that a proposed resolution submitted to the Board may go against the Company's best interests. In particular, independent and other directors unaffected by the conflict of interest should challenge any decision that may go against the interests of shareholders not represented on the Board.

Whenever the Board adopts significant or reiterated resolutions on issues on which a director has expressed serious concerns or reservations, said director should draw the pertinent conclusions and if he chooses to resign over such a matter, he should explain the reasons for leaving in a letter, as referred to in the following recommendation.

This recommendation should also be applicable to the Secretary of the Board, even if he or she does not hold a directorship.

The Company complies with this recommendation.

Recommendation 34.- If directors leave their office before the end of their term, they should explain the reasons thereof in a letter sent to all the Board members. Notwithstanding the publication of such resignation as a significant event, the reasons for the resignation must be disclosed in the Annual Corporate Governance Report.

The Company complies with this recommendation.

Recommendation 35.- The Company's compensation policy, as approved by the Board, should specify at least the following points:

- a) Amount of fixed components, with a breakdown, where applicable, of Board and sub-committee meeting attendance fees, and an estimate of the associated fixed yearly pay for board members;
- b) Performance-related components, including, in particular:
 - i) The types of directors to which they apply, as well as an explanation of the ratio of variable-to-fixed pay components;
 - ii) Performance appraisal criteria to calculate an entitlement to the award of shares, share options or any other performance-related components;
 - iii) Key parameters and grounds for any yearly bonus schemes or other non-cash benefits or perquisites; and
 - iv) An estimate of the sum total of variable payments arising from the proposed compensation policy, based on the level of compliance with pre-set targets or benchmarks.
- c) Key features of pension and insurance schemes (for example, supplementary pensions, life insurance plans and other arrangements), with an estimate of their total amount or equivalent yearly cost;
- d) Conditions that the employment contracts of executive directors and senior managers must honor, including:
 - i) Duration
 - ii) Notification periods; and
 - iii) Any other clauses regarding hiring bonuses, as well as compensation or golden parachute clauses due to early termination or rescission of the contractual relationship between the Company and the executive director.

Compensation policies are determined by the Nominations and Compensation Committee.

Recommendation 36.- Compensation involving awards of stock in the Company or companies of the Group, option awards or share-based incentives, non-equity incentive plans or pension/retirement schemes should be strictly limited to executive directors.

The Company complies with this recommendation.

Recommendation 37.- Non-executive directors' remuneration should sufficiently compensate them for their commitment and dedication, qualifications and the responsibilities involved in the performance of their duties, but not be so high as to compromise their independence.

The Company complies with this recommendation.

Recommendation 38.- In the case of performance-based pay or incentive plans, deductions should be calculated for any possible qualifications contained in the independent auditors' report that may reduce earnings.

The Company complies with this recommendation.

Recommendation 39.- In the case of earnings-based pay, compensation policies should include technical safeguards to ensure that they reflect the professional performance of the beneficiaries and not just the general progress of the markets or the Company's sector, or other similar circumstances.

The Company complies with this recommendation.

Recommendation 40.- The Board should submit a report on the directors' compensation policy to the consultative vote of the Annual Meeting, as a separate item on the agenda. This report should be made available to shareholders either separately or in any other manner the Company deems advisable.

The aforementioned report should focus on the compensation policy the Board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the issues referred to in Recommendation 35, except those cases that may involve the disclosure of commercially-sensitive information. It should also highlight the most significant changes in the Company's compensation policy compared to the previous year and include a broad summary of how the policy was applied over the year concerned.

The Board should also report to the Annual Meeting on the role of the Nominations Committee in designing the policy and if outside counsel was sought, the identity of the external advisors or consultants hired for such purposes.

The Company does not comply with this recommendation.

The directors' compensation policy is established by the Nominations and Compensation Committee within the limits set forth in the Company Bylaws.

The itemized compensation components, attendance fees and bylaw stipulated fees, are provided in this Corporate Governance Report and made available to all shareholders.

The two executive directors' compensation is likewise determined by the Nominations and Compensation Committee and included in this Corporate Governance Report for shareholders' information.

Taking into account that 95% of the Company's share capital is represented on the Board of Directors, in addition to 3 independent directors, the submission of a report on the Directors' compensation policy to a consultative vote of the Annual Meeting is deemed to be unwarranted.

Recommendation 41.- The Notes to the Financial Statements should list the individual compensation packages for directors during the year, including:

- a) Breakdown of each director's compensation, in particular:
 - i) Attendance fees and other fixed payments associated with directorships;
 - ii) Additional compensation for acting as Chairperson or member of a Board Committee;
 - iii) Any payments made under profit-sharing schemes or bonuses and the reason for granting them;
 - iv) Contributions on behalf of directors to defined-contribution pension plans, or any increase in directors' vested rights in the case of contributions to defined benefit schemes;
 - v) Any severance packages agreed or paid out;
 - vi) Any compensation they receive as directors of other group companies;
 - vii) Compensation received by executive directors in conjunction with their senior management positions;
 - viii) Any kind of compensation other than those listed above, regardless of its nature or the company making such payment, especially when it is considered a related-party transaction or when its omission would detract from a true and fair view of the total compensation received by the director.

- b) A breakdown of shares, stock options or share-based incentives awarded in the year to the directors, itemized by:
 - i) Number of shares or options awarded in the year, and the terms set for exercising the options;

- ii) Number of options exercised in the year, specifying the number of shares involved and the executed price;
 - iii) Number of options outstanding at year-end, specifying their price, date and other exercise conditions;
 - iv) Any change in the year in the exercise terms of previously-awarded options.
- c) Information on the relationship in the previous year between the compensation awarded to executive directors and the Company's earnings or any other performance measure.

The Company complies with this recommendation.

Recommendation 42.- In cases in which the Company has an Executive Committee, the breakdown of its members by director category should reflect that of the Board, and the Board's Secretary should act as this Committee's Secretary.

The Company complies with this recommendation.

Recommendation 43.- The Board should be kept fully apprised of the business transacted and resolutions adopted by the Executive Committee and all of the Board members should receive copies of the minutes of Executive Committee meetings.

The Company complies with this recommendation.

Recommendation 44.- In addition to the mandatory existence of an Audit Committee, pursuant to the Securities Market Act, the Board of Directors should form a committee, or two separate committees, for nominations and compensation.

The rules governing the composition and working procedures of the Audit Committee and the Nominations and Compensation Committee should be set forth in the Rules and Regulations of the Board of Directors, and include the following:

- a) The Board should appoint members of such committees taking into account the background, expertise and experience of its directors and the duties and responsibilities of each Committee; discuss their proposals and reports; and oversee and evaluate their work, reporting back to the first full Board meeting held thereafter;
- b) Such committees should be exclusively made up of non-executive directors, having a minimum of 3 members. Executive directors or senior managers may also attend meetings at the express invitation of the committees;

- c) Committees should be chaired by an independent director;
- d) They may engage outside experts or consultants whenever they feel this is necessary for the performance of their duties;
- e) Meeting proceedings should be recorded in the minutes and sent to all the Board members.

The Company partially complies with this recommendation.

The Board of Directors has set up an Executive Committee, Audit Committee and Nominations and Compensation Committee from among its members, with the working procedures and powers provided for in Articles 16 to 18 of the Rules and Regulations of the Board of Directors. The aforementioned Committees are composed mostly (Executive Committee and Nominations and Compensation Committee) or entirely (Audit Committee) of non-executive directors.

The Chairman of the different Committees and, where applicable, the remaining members report to the Board of Directors in the meeting held immediately after those of the former, providing, as the case may be, information on the matters discussed therein.

Recommendation 45.- The task of overseeing compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nominations and Compensation Committee, or if one exists separately, the Corporate Governance Compliance Committee.

The Company does not comply with this recommendation.

The possibility of expanding the powers and authorities of the Audit Committee or the Nominations and Compensation Committee is currently under review, in order to comply with this recommendation.

Recommendation 46.- The members of the Audit Committee, particularly its Chairperson, should be appointed taking into consideration their knowledge and background in accounting, auditing and risk management.

The Company complies with this recommendation.

Recommendation 47.- Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

The Company complies with this recommendation.

Recommendation 48.- The internal audit manager should present an annual work program to the Audit Committee, directly report on any incidents arising during its implementation and submit an activities report at the end of each year.

The Company complies with this recommendation.

Recommendation 49.- The control and risk management policy should at least specify:

- a) The different types of risks (operational, technological, financial, legal, reputational...) faced by the Company, including, with regard to financial or economic risks, the contingent liabilities and other off-balance-sheet risks;
- b) The levels of risk that the Company considers acceptable;
- c) The measures established to mitigate the impact of identified risks, should they actually materialize;
- d) The internal control and reporting systems that will be applied to oversee and manage these risks, including contingent liabilities and off-balance-sheet risks.

The Company complies with this recommendation.

Recommendation 50.- The Audit Committee's role and sphere of influence should be:

1). With regard to internal control and reporting systems:

- a) To supervise the preparation and integrity of the financial information for the Company, and, where applicable, its group of companies, reviewing compliance with regulatory requirements and legal provisions, the scope of the consolidation perimeter and the correct application of accounting principles.
- b) To periodically review the internal control and risk management systems so that key risks can be properly pinpointed, managed and reported on.
- c) To ensure the independence and efficacy of internal audit; propose the selection, appointment, re-election and, where applicable, removal of the internal audit manager; propose a budget for the internal audit service; receive periodic information on its activities; and ensure that senior management is aware of the conclusions and recommendations contained in such reports;
- d) To establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously report any irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.

2) With regard to the independent auditors:

- a) To submit to the Board proposals for selection, appointment, re-appointment and replacement of the independent auditors and the terms and conditions of their engagement;
- b) To regularly receive information from the independent auditors on the audit plan and the progress and outcome of its execution, verifying that senior management is duly aware of its recommendations.
- c) To ensure the independence of the external auditors and accordingly:
 - i) To ensure that the Company reports any change in the auditing firm to the Spanish Securities Market Commission (CNMV), accompanied by a statement on the possible existence of discrepancies that may have arisen with the outgoing auditing firm, and if so, the reasons thereof.
 - ii) To ensure that the Company and the independent auditors respect and honor prevailing standards on the provision of non-auditing services, the limits on the focus of the auditors' business, and generally speaking, any other existing standards aimed at guaranteeing the auditors' independence;
 - iii) To examine the circumstances leading to the resignation, where applicable, of the independent auditors, if this should happen.
- d) In the case of groups of companies, to help the group auditors take charge of the audits of the companies belonging to the group.

The Company complies with this recommendation.

Recommendation 51.- The Audit Committee should be entitled to meet with any of the Company's employees or senior managers, and to summon them without the presence of another senior manager.

The Company complies with this recommendation.

Recommendation 52.- The Audit Committee should provide information on the following items referred to in Recommendation 8 prior to any related resolutions passed by the Board:

- a) The financial information that the Company, as a publicly-traded company, must disclose periodically. The committee should ensure that interim financial statements are prepared using the same accounting principles as the yearly statements and, accordingly, may ask the independent auditors to conduct a limited review.

- b) The creation or acquisition of shares in special-purpose entities or entities with registered offices in countries or territories regarded as tax havens, and any other similar transactions or operations whose complexity could jeopardize the group's transparency.
- c) Related-party transactions, except in cases in which their review has been entrusted to another supervision and oversight committee.

The Company complies with this recommendation.

Recommendation 53.– The Board of Directors should strive to avoid having the financial statements that it formulates be presented to the Annual Meeting with reservations or qualifications in the auditors' report; otherwise, both the chairperson of the Audit Committee and the auditors should provide a clear explanation to shareholders on the nature and extent of such reservations or qualifications.

The Company complies with this recommendation.

Recommendation 54.– The majority of the members of the Nominations Committee – or Nominations and Compensation Committee, as the case may be – should be independent directors.

The Company does not comply with this recommendation.

CEPSA's Nominations and Compensation Committee is composed of one executive director who acts as Chairperson and two members who are the Vice-Chairmen of the Company and are non-executive shareholder representative directors.

Recommendation 55.– The Nominations and Compensation Committee should have the following duties in addition to those set out in foregoing recommendations:

- a) Evaluate the skills, knowledge and experience required on the Board, define the roles and capabilities required of the candidates to fill each vacancy accordingly and decide on the time commitment and dedication needed for them to properly carry out their duties;
- b) Examine or plan, in the manner deemed advisable, the succession of the Chairperson and Chief Executive Officer, and where applicable, make proposals to the Board so that such succession takes place in an orderly and well-planned way;
- c) Report on appointments and removals of senior managers as proposed to the Board by the Chief Executive Officer;
- d) Inform the Board on gender-diversity issues as explained in Recommendation 14 of this Code.

The Company complies with this recommendation.

Recommendation 56.- The Nominations Committee should consult with the Chairperson and Chief Executive Officer, especially with regard to matters involving executive directors.

Any Board members may ask the Nominations Committee to consider potential directorship candidates to fill vacancies arising on the Board.

The Company complies with this recommendation.

Recommendation 57.- The Nominations and Compensation Committee should have the following duties in addition to those listed in foregoing recommendations, namely:

- a) To make proposals to the Board of Directors regarding:
 - i) Compensation policies for directors and senior managers;
 - ii) Additional compensation and other contractual conditions for executive directors;
 - iii) Basic contractual conditions for senior managers.

- b) To oversee compliance with the compensation policies set by the Company.

The Company complies with this recommendation.

Recommendation 58.- The Nominations and Compensation Committee should consult with the Company's Chairperson and Chief Executive Officer, especially in connection with matters involving senior managers.

The Company complies with this recommendation.

G. OTHER INFORMATION OF INTEREST

List and explain the contents of any relevant principles or aspects of corporate governance applied by the Company that has not been covered in this report.

This section may include any other relevant information, clarification or particularity related to previous sections of the report, insofar as they are significant and not reiterative.

Specifically indicate whether the Company is subject to corporate governance legislation applicable in countries other than Spain and, if so, include the mandatory information to be disclosed whenever this is different from what is required in this report.

In corporate governance matters, CEPESA is strictly subject to the laws of Spain.

Binding definition of Independent Directors:

Indicate whether any of the Independent Directors has or has had any material relationship with the Company, its significant shareholders and/or its executives, as defined in section 5 of the Unified Code of Good Governance, that may compromise or influence his or her independence in the discharge of his or her duties:

No

This Corporate Governance Report has been approved by the Company's Board of Directors on March 27, 2008.

This Report has been unanimously approved by all the Board members present in person or by proxy. None of the members abstained or voted against its approval.

Madrid, March 27, 2008

