2016 ANNUAL AND CORPORATE RESPONSIBILITY REPORT

INDEX

Letter from the Chairman

H.E. SUHAIL AL MAZROUEI
Chairman of Cepsa

It is my pleasure to write to you to present this Annual and Corporate Responsibility Report, in which we have summarized Cepsa's main business activity and key data for the year 2016.

Our participation in this Company, as sole shareholder, began a transformative process in 2011, which in spite of the difficult times that the sector is witnessing, is advancing at a good pace and is producing some very visible results. And now, from Mubadala Investment Company, we continue to support Cepsa in perservering on this path to reach its potential, which is to become a leading global integrated company.

With that goal in mind, Cepsa's professionals have undertaken intense work across all of its business areas, which I will try to cover here.

In the Exploration and Production business we have reached agreement to consolidate our collaboration with Sonatrach; one of our strategic partners in Algeria, and where we have a strong position in crude oil and natural gas installations. Both companies also signed a Memorandum of Understanding (MOU) to study new collaboration opportunities in other business areas where the two share interests.

The refining area continues to invest in efficiency and optimization to have complex and competitive refineries that will allow us to successfully compete with countries such as Russia, the Middle East and the United States; the strong fall in demand or petroleum derivatives, and the new regulations regarding biofuels.

Our Marketing business has been strong, taking advantage of the pick-up in demand in the Iberian market, where we have implemented improvements to maximize sales through those channels with the largest margins.

The chemicals business has been especially positive for Cepsa in 2016. We have strengthened our leadership as producers of the raw material for biodegradable detergents; production at the sulfation and sulfonation plant in Genthin, Germany has begun; the new vegetable-based alcohol plant in Indonesia is almost finished, which will broaden our range of surfactants.

And I must also mention the creation of the Fundación Cepsa last year, a non-profit entity to manage, coordinate and support all of the Company's social responsibility activity.

Cepsa has carried out all the aforementioned activities with particular care towards all of the environments where it operates, conscious that its growth plans must meet the highest standards in sustainability and be based on the company's values. To this end, the Company has shown its commitment to the United Nations Global Compact Principles by renewing its pledge once again to this initiative, to which it has been adhered to since 2005, and strictly complies with its Code of Ethics and Conduct.

I would like to finish this statement by thanking all those teams that make up Cepsa for their work and dedication to help us reach the future that we all want for the Company.

Letter from the Vice Chairman and CEO

PEDRO MIRÓ
Vice Chairman and CEO of Cepsa

Firstly, I would like to begin this summary of the main business areas and challenges faced by Cepsa over the past year by thanking the team of professionals that make up the Company. Their tenacity and drive are an essential part in carrying out this business project to which we are all committed. Thanks to everyone for their hard work and enthusiasm.

I would also like to thank our shareholder and the Board for their trust in me, as well as the management team and Cepsa's employees. All of us that form part of this Company are convinced of the opportunity that being part of Mubadala Investment Company represents; a great, solid platform with strong future plans.

It is also important to highlight, I believe, that we finished in 2016 the evaluation of our Corporate Responsibility Master Plan 2013-2015, a management tool that helps us to move forward in our work as a responsible company, and that was concluded with an excellent level of compliance by all the business areas involved. As a result, we have defined a new Master Plan until 2019, which will no doubt contribute to achieving the strategic objectives for Cepsa's sustainable growth over the long-term.

With regards to the climate in which we have developed our businesses, we must stress again, that it has not been the most favorable for a company that works across the entire oil value chain.

Crude oil prices have held at exceptionally low levels -$9 a barrel below those of 2015-, which had a negative impact on our upstream operations. Meanwhile, the refining margin, while reasonable, was not the same as in 2015 ($5.7 a barrel compared with $7.7 the year before).

In this context, our Adjusted Net Result was €553 million. And we have achieved this result essentially due to two factors. The first, our integrated business model, which has allowed us to partly compensate the negative impact of some businesses with others that have performed better. The second factor has been our efficiency and cost savings plan, which has helped to alleviate some of the external headwinds.

Our Exploration and Production has been the area most affected by sustained low crude prices. Yet despite this difficult environment, the area managed to produce 96,800 barrels a day, and successfully implemented a strict efficiency and cost control program, which helped to steer it back on to the path of positive results.

In our Refining business, we must highlight its operational excellence, which saw both high availability rates of 97%, and high capacity rates for our refineries on the Iberian peninsula of 93%. On top of this good management, we must also add refining margins, which while below those of 2015, have held at reasonable levels.

Over the year 158.7 million barrels of crude were distilled, similar to the amount the year before. The range of crudes used, both in terms of their origin and qualities, also helped to optimize margins at our refineries.

The business area of Marketing petroleum products has benefited from the economic recovery of our country, especially for motoring (gasolines and diesels). The pick-up in the tourism sector has also helped fuel sales to the aviation sector (kerosenes). In contrast, heating fuels sales have had a negative impact due to the year's high temperatures.

In total, our teams sold 25.3 million tons of petroleum products, and over the year have launched new products in the market, and have signed agreements with companies and collaboration agreements with partners, who bring their experience and allow us to improve the range of services and products we offer our customers.

The year 2016 has been very positive for Cepsa's chemicals businesses, with results double those seen the year before, and sales of three million tons of derivatives.

LAB sales, the raw material used to manufacture detergents, where we are world leaders, with plants in Spain, Africa, Canada and Brazil, have seen a 4% increase.

And the production of other products such as phenol and acetone that we produce in Spain and China, used to make next generation plastics, among other applications, also performed well.

The Gas and Power business has improved its contribution to the Company's results, despite low prices in the electricity market. The successful management of hedging operations, and the contribution of Medgaz, have been key to these good results.

Investments over the year were close to €600 million. Nearly half of these resources have gone towards optimizing our industrial processes, with a particular emphasis on improving safety and energy efficiency. To this end, I am pleased to say that our global plan for operational excellence is proving successful; the evidence of which is a reduction in Cepsa's accidents index by 29% compared to 2015.

Lastly, I would like to reaffirm the commitment of Cepsa's professionals to fulfilling the company's objectives in our Strategic Plan and our work to keep moving forward and overcoming the challenges that we find on our path, which is to make sure Cepsa is ever more efficient, international, and robust.

CHAPTER 1
Cepsa at a glance

MILESTONES

“We are an integrated energy company”

We satisfy the demands of people, companies and society by adapting energy to their needs. We can do this because we are an integrated energy company that is technically excellent, modern, innovative and adaptable.

"THE CEPSA TOWER OBTAINS THE BREEAM CERTIFICATE FOR SUSTAINABLE CONSTRUCTION"

To attain this, we submitted ourselves to an exhaustive assessment under the British Breeam method, which encompasses aspects related to the environment and social well-being, in addition to compliance with regulations.

"THE CEPSA FOUNDATION IS BORN"

As a not-for-profit entity of general interest that channels the social action of our company. Through our Foundation, we strengthen our social engagement by investing in actions aimed at meeting the needs and priorities of the communities and populations where we operate.

"TEST LABORATORY IN PALOS"

The function of the new centre is to oversee the quality and compliance of specifications of the Company's products, and it provides services to both the Rábida refinery and the Palos de la Frontera chemical plant.

"50TH ANNIVERSARY OF THE GIBRALTAR SAN ROQUE REFINERY"

One of the most efficient centres in the industry owing to the constant investment in safety, technology, processes and energy optimization.

"BROADENING OF CERTIFICATIONS AS A FAMILY RESPONSIBLE COMPANY"

The businesses of commercial petroleum and exploration and production have received the Family Responsible Company certification for their advanced methods of achieving a work-life balance. These businesses join those which had already been certified under this model in May 2015, Cepsa and its Petrochemicals area.

"FIRST MULTI-PRODUCT BARGE IN EUROPE"

Together with Suardiaz, we present this pioneering project on a European scale. The construction of this supply ship is a milestone for us and for the future of European bunkering, and it is part of the 'Core LNGas Hive' initiative selected by the European Commission.

"PIONEERS IN INSTALLING MASS FLOW METERS IN BARGES"

We have strengthened our leadership position in bunker supply as the only supplier of this technology in Spain and one of the first in Europe and the Mediterranean. The innovative mass flow meter system guarantees greater precision of supply by measuring in terms of mass and not by volume, and it reduces operating times by up to three hours.

"SIGNING OF COOPERATION AGREEMENTS IN ALGERIA"

We signed a series of agreements with Sonatrach that consolidate the two companies' collaboration in their current long-term projects of the oil fields of Algeria and in a potential discussion of other business opportunities beyond the upstream sector.

"STRATEGIC ALLIANCE WITH ORANGE"

Will allow both companies' customers to benefit from a program of exclusive offers. The collaboration opens up new promotional channels to reach potential customers.

"NEW AUTOMATED LUBRICANT STORAGE FACILITY IN SAN ROQUE"

With this new center, equipped with the latest technology, we will achieve greater traceability of our products, in turn increasing the robustness of processes and systems and the efficiency and agility of the services that we offer to our customers.

"NEW ASPHALT AND LUBRICANT PRODUCTS"

We are developing a new emulsion to waterproof large surfaces: Emulbit Flex: quick hardening, high endurance and high recovery capacity. Market launch of new marine lubricant: Mobilgard 300 C, which improves maintenance of crosshead diesel engines.

"CEPSA WINS AWARDS IN DIFFERENT AREAS"

Gold award for a pioneering system of chemical product loading and unloading at the Edison Awards, Special Safety Award from the Spanish Chemicals Industry Federation (FEIQUE), 2016 Golden World in the Technology category in the IPRA awards for Business Communication, the 'Human Capital' award for Human Resources Management from Wolters Kluwer, and the Golden Valve Award from Intergraph, among others.

CEPSA IN NUMBERS

Results (Millions of euros)	2016	2015	2014[1]
Revenue	15,455	17,452	23,365
Adjusted operating income	835	771	625
Adjusted net attributable profit	553	596	459
Net attributable profit (IFRS*)	602	-1,040	-389

Financial data (Millions of euros)	2016	2015	2014[1]
Share capital	268	268	268
Equity attributable to the Parent Company	4,572	4,306	5,591
Net financial debt	2,109	2,923	3,007
Investments during the year	572	1,052	3,206
Investment in social actions	4.5	5.2	5,7
Dividends approved by Cepsa	332	327	302

Operational data	2016	2015	2014
Crude oil output (working interest) (barrels/day)	96,778	108,122	106,901
Crude oil sales (barrels/day)	46,458	48,362	41,425
Crude oil distilled (barrels/day)	434,734	433,699	429,589
Product sales (Millions of tonnes)	28.3	27.4	27.7
Electricity output (GWh)	2,140.2	2,040.3	2,100.2
Natural gas sales (GWh)	28,409	30,083	27,753

Markets and business data	2016	2015	2014
Brent crude oil price ($/barrel)	43.7	52.5	99.0
Cracking refining margin ($/barrel)	5.7	7.7	4.5
Hydroskimming refining margin ($/barrel)	0.6	0.9	-3.4
Electricity pool price (€/MWh)	39.6	50.3	41.3
Natural gas price (Henry Hub Spot €/MWh)	7.63	8.02	11.2
Exchange rate ($/€)	1,107	1,110	1,329
Three-month Euribor (%)	-0,291	-0.02	0.21
CPI (%)	1.6	0.0	-1.0

Other performance figures	2016	2015	2014
Number of employees	9,823	10,512	10,804
Female workers	35%	34%	32%
No. employees with permanent contract	92%	91%	91%
Hours of training	237,728	372,812	420,319
Number of occupational accidents resulting in leave[2]	34	41	48
Absenteeism rates due to common illness (%)	2.23	2.38	1.56
Local contracting[3] (%)	55	53	40
GHG emissions (Scope 1 y 2) (thousands of tCO_2eq)	6,646	6,915	6,782
Total energy consumed (thousands of GJ)	83,995	90,966	92,214
Volume of water consumed (thousands of m^3)	32,586	36,910	36,008
Volume of waste water (thousands of m^3)	11,767	15,455	15,072
Raw materials consumption (Thousands of tonnes)	25,977	26,311	26,013
Total waste managed[4] (tonnes)	60,929	75,989	79,609

* International Financial Reporting Standards [1] Restated for the purposes of comparison with 2015. [2] Accidents that give rise to temporary or permanent disability or death. [3] Data from Spain. [4] The data relating to 2014 and 2015 have changed with respect to those previously published due to the review of some criteria and their recalculation.

CHAPTER 2
Who we are

MISSION
WHAT ARE WE?

WE PROVIDE THE ENERGY THAT EVERY REALITY NEEDS.

VISION
WHAT DO WE WANT TO BE?

A GLOBAL ENERGY COMPANY OF CHOICE.

VALUES
WHAT ARE OUR VALUES?

SAFETY, SUSTAINABILITY, CONTINUOUS IMPROVEMENT, LEADERSHIP, AND SOLIDARITY.

MISSION, VISION AND VALUES

"Our aim is to achieve an important position in the world energy market"

CEPSA TODAY

We are present in all phases of the petroleum and gas value chain, with nearly 10,000 professionals on four continents. With the dynamic and innovative spirit that has characterised us now for nearly 90 years, we are undergoing a process of continuous improvement in our constant search for new goals and new challenges, fully committed to offering maximum customer satisfaction and adapting energy to their needs.

Thanks to our integrated model, our high technical standards and ability to adapt, we have consolidated our position as a leading company at a national level, and our objective is to achieve an important position in the world energy market.

VALUES

Safety

As one of our priorities; above all, the safety of our employees and customers.

Continuous improvement

Promoting talent and knowledge.

Leadership

Defending our Company's interests through effort, courage and ambition, but also with honesty and integrity.

Solidarity

By working as a team, maintaining a positive attitude and achieving collaboration among our professionals and with our customers and suppliers, we succeed in generating value.

Sustainability

Of the company over time, with the utmost respect for the protection of the environment and for the communities where we are present.

CEPSA AROUND THE WORLD

"We are an integrated energy company with nearly 10,000 professionals, with experience in the industry, and we are present in all phases of the petroleum and gas value chain."

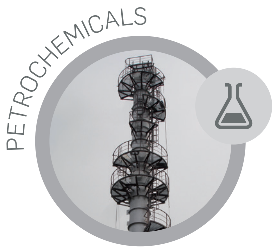
- UPSTREAM
- E EXPLORATION
- P PRODUCTION
- REFINING
- DISTRIBUTION AND MARKETING
- PETROCHEMICALS
- GAS AND POWER
- CORPORATE HEADQUARTERS
- TRADING AND BUNKER


BELGIUM AND NETHERLANDS
GERMANY
UNITED KINGDOM
PORTUGAL
MOROCCO
CHINA
INDONESIA
KENYA
E
MALAYSIA AND THAILAND
E
P
U.A.E.
E
P
ITALY
NIGERIA
ALGERIA
E
P
SPAIN
E
P
ANDORRA AND GIBRALTAR

OUR ACTIVITIES

This business unit carries out all the activities necessary to find and produce hydrocarbons. We work across four continents, and we currently produce at Algeria's second largest oil field. We also have a significant presence in Colombia, where we are the fifth largest company in the sector. We have a diversified portfolio, with onshore assets, offshore assets and deep offshore assets.

This is the unit that distils crude oils, selects the most appropriate oils, and transforms them into products for sale in the market. It is fully integrated in other Cepsa businesses, such as trading, marketing and chemicals, from the procurement of crude to the marketing of products, in order to maximise margins in the value chain. We have three refineries with a total crude distillation capacity of 27 million tonnes a year, 36% of the installed capacity in Spain.



We carry out our chemicals activity in a dynamic of maximum integration with our refining activity. We produce high value-added products that become raw materials for other industries with numerous final applications. We have plants in Germany, Brazil, Canada, China, Spain and Indonesia. We are world leaders in the production of LAB (linear alkyl benzene, the raw material for biodegradable detergents) and cumene, and the second largest producers of phenol and acetone, materials for the manufacture of cutting-edge plastics.

Our derivatives are present throughout the world. We sell butane, propane, motor fuels, marine fuels and aviation fuels, lubricants and asphalts, among others, through our own sales channels and an extensive national and international network of agents and distributors. We are positioned in the market as a company that supplies innovative products that meet the realities of our customers.

We supply gas in both wholesale and retail markets, and electricity to both industrial customers and consumers in the tertiary sector. The electricity area has electricity and steam co-generation plants in the main industrial areas, supplied by the Group's natural gas, and we operate as agents and representatives in electricity markets in order to sell our production that of third parties.

Trading is the unit that supplies refineries with crude oil and other products. It also markets the crude oil produced by Cepsa at its fields, as well as product surpluses. Through the Bunker unit, we supply fuel to ships in the most significant locations of maritime traffic, such as Fujairah, the Strait of Gibraltar and Panama. Through Vetting, we manage maritime transport, ensuring the security of ships that transport freight owned by Cepsa or that operate at the company's maritime facilities.

EXPLORATION AND PRODUCTION

"We are present in four continents and we operate the second largest oilfield in Algeria"

COLOMBIA

In onshore production (crude oil):

- Caracara (70%), located in the Los Llanos basin and operated by Cepsa.
- La Cañada Norte (16,7%), located in the higher Magadalena valley. Not operated by Cepsa.

In onshore exploration and production (crude oil):

- CPO 12 (3%) and CPO 14 (38%), located in the Los Llanos basin. Not operated by Cepsa.
- Merecure (70%), Tiple (70%), Garibay (50%), Puntero (100%), Llanos 22 (55%), Jilguero (57.8%) located in the Los Llanos basin. Operated by Cepsa.

PERU

- Block 131: Located in the Ucayali basin. 100% operated by Cepsa. Onshore.

BRAZIL

Offshore exploration blocks 717 and 665 located in the Cear basin. Not operated by Cepsa (50%).

ALGERIA

- Rhourde el Krouf (RKF) oil field Located in the Berkine basin. Cepsa (49%), joint operation in production. Onshore.
- Ourhoud oilfield. Located in the Berkine basin. Cepsa (39.7%), joint operation in production. Onshore.
- BMS oilfield. Located in the Berkine basin. Cepsa (45%) (pending approval of 30% from Petronas), joint operation in production. Onshore.
- Rhourde er Rouni oil field. Located in the Berkine basin, Cepsa is the operator with a 49% share. Onshore.
- Timimoun gas field. Located in the Timimoun basin, Cepsa (11.25%), joint operation in development. Onshore.

SPAIN

Four offshore production concessions with crude oil production off the coast of Tarragona: Casablanca (7.45%), Rodaballo (15%), Boquerón (4.5%) and Montanazo (7.25%). Not operated by Cepsa.

UNITED ARAB EMIRATES

Cepsa holds a 12.8% share in ADOC through the company CEPAD. Three offshore production wells (Uhm Al Anbar, Neewat Al Galan, Mubarraz), and one field in development (Hail), off the coast of Abu Dhabi. Not operated.

THAILAND

- Offshore block G5/43 located in the Gulf of Thailand. In production, 100% operated by Cepsa.
- 39% ownership of APICO with exploratory interests onshore in Thailand and in onshore gas field (Sinphuhorn).

MALAYSIA

- KBM. Located off coast of Malaysia. Offshore. Operated by Coastal KBM, Cepsa 70%, and in production.
- Offshore PM-316 Block. Located off coast of Malaysia. Operated by Cepsa (100%). In exploration stage.

KENYA

Onshore exploratory Block 11A. Located in the Turkana region. Cepsa (55%), operated.

SURINAME

Offshore exploration block 53. Located in the Guyana-Suriname basin. Cepsa (25%), not operated.

EXPLORATION AND PRODUCTION

Business data	2016	2015	2014
Revenue (Millions of euros)[5]	**534**	706	1,066
Adjusted operating income (Millions of euros)	**111**	(96)	283
Capital expenditure in the year (Millions of euros)	**171**	543	2,651
Working interest production (thousands of barrels per day)	**96.8**	108.1	106.9
Net entitlement production (thousands of barrels per day)	**72.3**	70.5	60.5

[5] Excludes sales to group companies.

2016 MILESTONES

- SIGNING OF FARM-OUT AGREEMENT
  For the purchase of a 30% share from our partner Pacific E&P in Contract 131 in Peru.
- DRILLING OF TARACH-1 WELL IN KENYA
  Accordance with our standards of safety, quality and respect for the environment.
- START-UP OF INCREASED FLUID HANDLING CAPACITY (IWH) IN OURHOUD, ALGERIA
  Which has improved the oil field's production capacity, due to the increase in water treatment and its reinjection in the field.
- FIRST 3D SEISMIC TESTS IN DEEP OFFSHORE WATERS

2016 assets	Exploration, development and production	Attributed reserves (Mmboe)[6]	Net entitlement production (Mmboe)
Algeria	***Onshore***	120,099	13,055
Latam (Colombia and Peru)	***Onshore***	19,599	5.31
Southeast Asia (Thailand and Malaysia)	***Onshore/Offshore***	6,301	7,022
Abu Dhabi	***Onshore***	17,499	1,011
Spain	***Offshore***	0,144	0,065
Total	-	*163,642*	*26,463*

[6] 1P Reserves.

2017 CHALLENGES

- SIGNING OF NEW CONTRACT FOR RKF OIL FIELD IN ALGERIA
  For 25 years and associated to new plan for re-development.
- DRILLING THE FIRST HORIZONTAL WELL
  Well in the Mirador formation in Casanare, Colombia.
- DRILLING OF KOLIBRIE-I WELL IN SURINAME
  It will be the country's second exploratory well in deep water.
- EXPLORATION CAMPAIGN IN MALAYSIA
  For the drilling of two exploratory wells in the PM316 block (offshore).

REFINING

"Our Refining business is fully integrated with other Cepsa business units such as Trading, Marketing, and Chemicals, from the supply of crude oil through to the marketing of its products, to maximize the margin across the value chain."

ASESA (50%)
Asphalts Production capacity:
690 thousand tonnes/year.

LA RÁBIDA
Production capacity:
9,5 million tonnes/year.

GIBRALTAR SAN ROQUE
Production capacity:
12 million tonnes/year.

TENERIFE
Production capacity:
4,5 million tonnes/year.

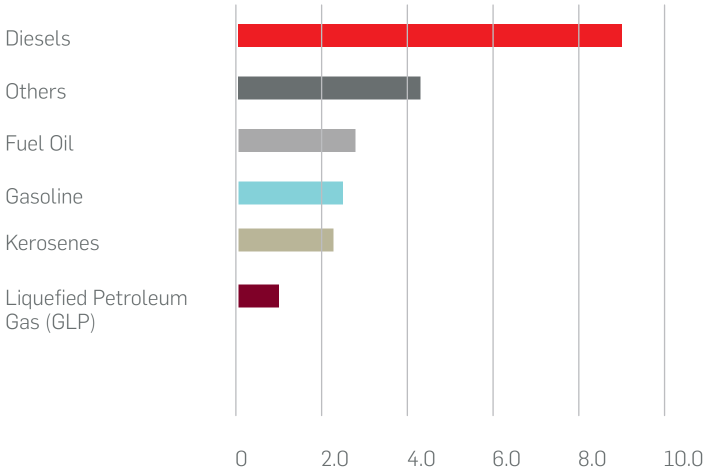
Business data	2016	2015	2014
Consolidated sales of petroleum products (Millions of metric tonnes)	**25.3**	23.4	25.03
Revenue excluding special excise taxes (Millions of euros)	**6,863**	13,765	18,940
Adjusted operating income (Millions of euros)	**328**	836	275
Capital expenditure in the year (Millions of euros)	**208**	281	238

2016 MILESTONES

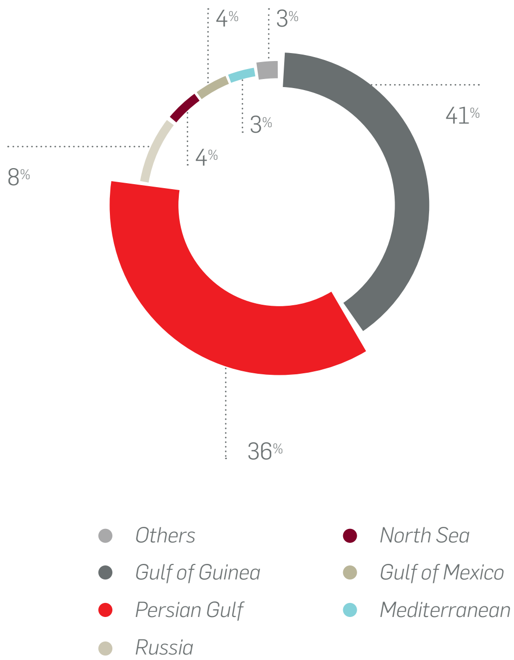
- CONSOLIDATION OF REFINING OPTIMIZATION PLAN (ROP)
  The margin increase was $1.78/bbl, higher than expected. Implementation of Continuous Refining Optimization Plan (CROP).
- START-UP OF EXPERIMENTAL PRODUCTION OF NEW MARINE FUEL
  Arising from a three-party agreement with Quadrise and Maersk, we have produced a new marine fuel, MSAR (Multiphase Superfine Atomised Residue), with environmental and economic advantages over other marine fuels.
- NEW PYROTUBULAR BOILERS AT THE TENERIFE REFINERY
  With significant savings in both fixed and variable costs.
- CRASH CASE EFFICIENCY PLAN
  Resulting in savings of €29 million.

JOINT REFINERY PRODUCTION

(Millions of tonnes)



ORIGIN OF CRUDE OIL RECEIVED



2017 CHALLENGES

- IMPROVING OUR SOLOMON POSITIONING

  Position all our indices in the 1st and 2nd quartile. Prioritizing operating costs, efficiency and optimisation.

- PROJECT FOR THE OPTIMIZATION OF AROMATICS AT LA RÁBIDA

  With the aim of increasing the production of raw materials for the chemical industry.

- IN THE CANARY ISLANDS, EFFICIENCY PROJECTS.

  With the aim of optimizing tasks and adapting resources to real needs.

- ADVANCING IN SAFETY IMPROVEMENTS

  Our challenge: reduce the LWIF rate (accident frequency rate) to below 1.0.

DISTRIBUTION AND MARKETING

"At Cepsa we offer products and innovative services of high quality, which reach markets through a number of sales channels. Our tools are: Customer service, safety, and continuous improvement."

1,788 SERVICES STATIONS

LPG

- 87 distributors
- 36 agencies
- 11 packaging plants

PRESENCE AT MAIN SPANISH AIRPORTS

2 LUBRICANT PLANTS

6 ASPHALT TERMINALS

33 FUEL POSTS FOR FISHING BOATS IN SPAIN

2016 MILESTONES

- **IMPLEMENTATION OF THE CUSTOMER SUPPORT PROJECT**
  Enabling us to improve our customer service and achieve greater control, records and traceability of the information we use.
- **START OF SALES IN THE CANARY ISLANDS OF LPG (LIQUEFIED PETROLEUM GAS) BOTTLES**
  To provide better service to our customers in the islands.
- **COMPLETION OF SUBSIDIARIES MERGER PROJECT**
  With increased operating efficiency and a reduction of costs.
- **DEVELOPMENT OF BINDERS**
  For a more sustainable manufacture of asphalt mixes.

Sales of petroleum products (Thousands of tonnes)	2016	2015	2014
Motor and other fuels	**11,523**	11,740	11,170
Marine fuels	**5,169**	4,408	5,600
Jet fuel	**2,758**	2,097	2,423
Liquefied petroleum gas	**477**	471	508
Asphalts	**1,084**	1,098	950
Lubricants, base oils and paraffin	**241**	240	231
Exports	**4,091**	3,301	4,151

2017 CHALLENGES

- BLENDING PARTNERSHIP AGREEMENT WITH BP LUBRICANTS
  At our San Roque facilities.
- START OF MARKETING OF LPG BOTTLES IN PORTUGAL
  With the launch of the first sales of bottles to customers in the last quarter of the year.
- START-UP OF BIOFUEL PLANT IN SAN ROQUE
  Optimizing production and capitalizing on the company's experience and excellence.
- GROWTH IN ALL BUSINESSES AND MARKETS
  Also considering opportunities for international growth..

PETROCHEMICALS

SPAIN
Puente Mayorga (San Roque, Cádiz)
- LAB: 220,000 tonnes/year.
- LABSA: 80,000 tonnes/year.
- Paraffin: 400,000 tonnes/year.

Palos de la Frontera (Huelva)
- Phenol: 600,000 tonnes/year.
- Acetone: 370,000 tonnes/year.

INDONESIA
Under construction
- Alcohols: 160,000 tonnes/year.

BRAZIL
Deten
- LAB: 260,000 tonnes/year.

CANADA
Bécancour
- LAB: 120,000 tonnes/year.

GERMANY
Genthin
- Surfactants: 130,000 tonnes/year.

CHINA
Shanghai
- Phenol: 250,000 tonnes/year.
- Acetone: 150,000 tonnes/year.

2016 MILESTONES

- COMPLETION OF PTA/PIA/PET BUSINESS DIVESTMENT PROCESS

  Through the sale of the Guadarranque plant in San Roque.

- START OF PRODUCTION OF SULPHATION/SULPHONATION PLANT IN GENTHIN, GERMANY

  We begin to see the aim of the joint venture's strategic plan in downstream assets, towards higher value-added products in the surfactant market.

- SAFETY PRODUCTION LICENSE AT CEPSA'S SHANGHAI CHEMICAL PLANT

  An important milestone for our Asian positioning. This plant has made us the second largest producer of phenol in the world.

“We have developed, alongside UOP, the most modern and efficient technology to make the raw material used for biodegradable detergents.”

Business data	2016	2015	2014
Consolidated sales of petrochemical products (Millions of metric tonnes)	**3.1**	3.3	2.9
Revenue excluding special excise taxes (Millions of euros)	**2,149**	3,037	3,069
Adjusted operating income (Millions of euros)	**176**	96	178
Capital expenditure in the year (Millions of euros)	**86.4**	172	265

2017 CHALLENGES

- START-UP OF ALCOHOL PLANT IN INDONESIA
  Strategically strengthening our position as a worldwide supplier of raw materials for detergents, with a geo-strategic location in the country.
- START-UP OF REVAMPING OF DETEN
  To meet rising demand for LAB/LABSA in Brazil. We are strengthening our leadership position as the main supplier in South America and leading worldwide producer of LAB.
- CHANGE OF CATALYST AT CEPSA CHEMICALS BÉCANCOUR
  The new generation capacity will enable us to make savings in the consumption of raw materials and give the plant greater versatility.

GAS SALES
28,409 GWh

ELECTRIC POWER SALES
2,140.2 GWh

GAS AND POWER

MEDGAZ GAS PIPELINE

80% use by customers	25% of gas imported to the Spanish system	2,160 metres maximum depth
Investment of €900m	210 Km underwater	8,000 Mm³/year

Business data	2016	2015	2014
Natural gas sales (GWh)	**28,409**	30,089	27,753
Electricity sales (GWh)	**2,140**	2,040	2,100
Steam sales (Thousands of tonnes)	**4,660**	4,428	4,628
Revenue excluding taxes (Millions of euros)	**620**	770	825
Adjusted operating income (Millions of euros)	**21**	8	13
Capital expenditure (Millions of euros)	**7.6**	26	3

2016 MILESTONES

- WE ARE ADVANCING IN OUR GROWTH STRATEGY
  We now supply over one thousand energy points.
- WE INTEGRATED THE COMBINED CYCLE UNIT FROM THE SPIN-OFF OF NGS
  We have completed the activities, investments and operations necessary to bring the facility back into operation and integrated into Cepsa Gas and Power.
- EXCELLENT OPERATING RECORD OF MEDGAZ
  Consolidating itself as one of the main entry points of gas in Spain.

SPAIN

PALOS SITE	Plant	% of ownership	MW capacity
Cogeneration	La Rábida 1	70%	50
Cogeneration	La Rábida 2	100%	82
Cogeneration	Gemasa	70%	28

SAN ROQUE SITE	Plant	% of ownership	MW capacity
Cogeneration	Gegsa	70%	76
Cogeneration	Getesa	70%	41
Cogeneration	Lubrisur	100%	38
Combined cycle	Gibraltar field	100%	388

TENERIFE SITE	Plant	% of ownership	MW capacity
Cogeneration	Cotesa	100%	38

ASESA	Plant	% of ownership	MW capacity
Cogeneration	ASESA	50%	14

2017 CHALLENGES

- COGENERATION EFFICIENCY IMPROVEMENT

  To optimize plant improvement.

- ASSESSMENT OF OPPORTUNITIES IN THE RENEWABLE ENERGY SECTOR

  We are seeking out opportunities that can achieve synergies with other business areas, on a scale that will allow us to learn about the development and operation of this type of project.

- START-UP OF THE GIBRALTAR SAN ROQUE COMBINED CYCLE REGENERATION PLANT

  In which work is continuing on modernization and migration of systems, the Hadi Project, and segregation and start-up tasks.

TRADING AND BUNKER

"This business unit provides support to the whole crude oil value chain, maximixing opportunities in global markets."

SPAIN
Presence in 47 ports via tankers.
7 terminals for supplying ships.

PANAMA
3 barges.

UNITED ARAB EMIRATES
Supply of fuel to ships from Fujairah port.

2016 MILESTONES

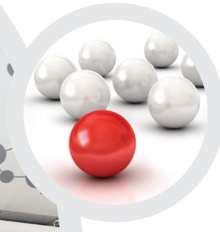
- OBJECTIVE OF BUNKER ACTIVITY
  0 occupational accidents. 100% achieved in 2016.
- 43 DIFFERENT CRUDE OILS FROM 21 DIFFERENT COUNTRIES
  First to unload Iranian crude oil in Europe following the end of the embargo. We started to process U.S. crude.
- INSTALLATION OF MASS FLOW METER (MFM) TECHNOLOGY.
  Mass flow meters in barges that operate in the Strait of Gibraltar to supply ships, with significant advantages in supply time and reliability.
- REFINING SUPPLY SYSTEM
  With a total of 157.7 million barrels of crude oil.

Business data	2016	2015	2014
Supplies to Cepsa's refining system (Millions of barrels)	**157.7**	157.9	159.7
Marketing of the Company's crude oil (Millions of barrels)	**16**	12.5	10.3
Petroleum product transactions for the Company and third parties (Millions of tonnes)	**8.7**	7.1	9.2
Physical trading (Millions of tonnes)	**3.8**	3.1	1.9
Proprietary trading using derivative financial instruments (Millions of barrels)	**40.9**	28.7	10
Vessel chartering management	**1142**	981	923
Marine fuel sales (Millions of tonnes)	**5.1**	5	5.8

2017 CHALLENGES

- CONSTANT ADAPTATION
  Both the crude oil supply requirements of our refineries and the performance of the products balance of the Cepsa system.
- BROADEN RANGE OF FUEL PRODUCTS
  With those that meet the new ECA regulation of 2015 with sulphur content of 0.1%.
- EXPAND AND INCREASE TRADING ACTIVITIES
  With its own entity, sustainable over the long term, and exploring logistical positioning in new markets.
- MAINTAINING OUR MILESTONE OF 0 ACCIDENTS

CHAPTER 3
Sustainable Growth



ECONOMIC AND INDUSTRIAL ENVIRONMENT

"The world economy continued to grow in 2016 at a moderate rate (3.1%), driven by the growth of the United States and the recovery of emerging economies."

WORLD ENVIRONMENT

The world economy continued to grow in 2016 at a moderate rate (3.1%), driven by the growth of the United States and the recovery of emerging economies.

- GDP growth rates are expected to increase in 2017, mainly due to the increase in consumption in non-OECD countries.
- Russia and Brazil are beginning to recover from severe recessions.
- China is curbing, in part, the strong deceleration it was undergoing. It is continuing the process of shifting towards an economy based on domestic consumption and less on exports; the service sector now represents more than 50% of GDP.
- In Europe, we should bear in mind Brexit, the refugee crisis and the threat of terrorism, in addition to political uncertainty, elections in Germany and tension with the United States.
- The result of the general elections in the United States may lead to a significant change in its policies that will have a global impact and affect the countries' trade relations.
- Spain continues to be one of the most dynamic economies of Europe (and will likely remain so in 2017), with GDP growth of 3.2% in 2016. The main drivers of this growth are the increase in domestic demand, exports and the recovery of the labour market, together with external factors such as the low price of crude oil, the euro-dollar exchange rate and low interest rates.
- Demand for petroleum products in Spain is recovering after the crisis.

SECTOR ENVIRONMENT

The price of crude oil has a huge impact on oil and gas companies, mainly on the Exploration and Production business. Going forward, a moderate increase in prices is expected as the market gradually balances out and moves away from oversupply.

Demand

Notable recovery in world demand driven by the economic recovery of developed countries, and by emerging countries such as China and India. This is the main factor propelling a slight recovery of prices.

Supply

The agreement of OPEC, and other countries such as Russia, reached in November and extended to early 2018, is another action that will cause prices to recover slowly. US production was beginning to recover in early 2017, while non-OPEC countries were showing no signs of a significant increase in production.

Regulation

It is becoming an even larger factor in the oil & gas sector than in the past, mainly in developed countries, where environmental standards and products' technical and operational specifications are becoming ever more restrictive.

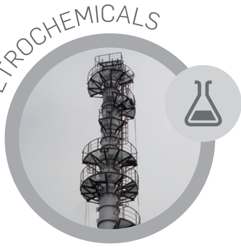
EXPLORATION AND PRODUCTION

The development costs of exploration projects have increased considerably, due mostly to such projects' growing technical complexity. This has sped up the search for efficiency and cost reduction. This is why Cepsa applies very selective criteria for investment in new projects.

REFINING

Stable environment, high refining margins (although falling short of 2015 levels) driven by low petroleum prices and increasing demand, recovering after the sharp fall of previous years. The competitiveness of refineries in Russia, the Middle East and the United States remains a threat for European refineries. Implementation of regulation of the International Maritime Organisation (IMO) in 2020 related to sulphur emissions, which will improve margins in high-conversion refineries.

PETROCHEMICALS



Continues to show the best growth perspectives in our business environment, due to strong demand for petrochemical products. However, there are large competitive differences between regions. Although Europe is improving its competitiveness because of low oil prices, North America maintains its leadership on the back of the competitive advantage of shale-gas.

DISTRIBUTION AND SALE

An area affected by the weak economy of previous years, which caused a slump in demand for petroleum products. Demand continues to recover, although without reaching pre-crisis levels.

GAS AND POWER

Notable for overcapacity of electricity production facilities and for higher consumption of coal than of gas, as it is more attractive due to lower costs and Government subsidies. Demand increased with respect to the previous year. Major European objective of promoting renewable energy projects.

TRADING AND BUNKER

Market volatility has fuelled Trading activity. Margins are ever tighter in bunker due to strong competition at ports.

STRATEGY FOR VALUE GENERATION

Our 2017-2021 strategy maintains the objectives and commitments set out in the previous plan: maximising shareholder return and value creation, maintaining our financial robustness and achieving sustainable growth over the long term. In this plan, we have included Abu Dhabi as a priority area for the development and expansion of business units, taking account of the interests of our shareholder. To achieve these objectives, we have planned a series of actions that rely on the strengths we have built on over recent years.

EXTERNAL FACTORS

PRIORITY OBJECTIVES

STRATEGIC ACTIONS

“Our strengths for future growth”

- **Integrated business model.** Gives us greater capacity to deal with situations of crisis and ensure long-term sustainability.
- **Financial robustness.** Generates dividends and constant growth.
- **Extensive experience and know-how.** Provides us with value added in the execution of projects on a worldwide level, in all our businesses and geographic areas.
- **Leadership** in chemicals and reference company in the refining sector.
- **Successful expansion of our businesses** in Latin America, one of the main growth markets.
- **Research and development.** Contributes to the continuous improvement of our operations and the development of new projects.
- **Attracting talent.** To attract and retain the best professionals.
- **Support of our sole shareholder.** Provides us with long-term stability and synergies with other Group companies.

EXPLORATION AND PRODUCTION	REFINING	DISTRIBUTION AND SALE
• Low crude oil prices. • Agreements for moderation of production. • Increase in development costs of exploration projects. • Higher growth in demand for gas compared to petroleum. • Technological progress.	• Slow recovery and stabilisation of demand for petroleum products. • Increased competitiveness of refineries in Russia, the Middle East and the US. • Refining overcapacity in Europe. • Regulation: Increased regulation of biofuels in Spain; implementation of IMO in 2020.	• Recovery in demand for petroleum products in the short term and stagnation in the long term due to rising efficiency, and the emergence of alternative fuels or changes in transportation habits. • Shortfall of petroleum products in Africa. • Increase of biofuel regulation in Spain. • Technological progress.
• Resilience against low prices and sustainable growth in the long term. • Streamlining of our operations. • Replacement of reserves and strengthening of our position in key regions (Abu Dhabi, Latam, North Africa). • Focus on projects under development.	• Protection of refining margin. • Improved process efficiency. • Shift of portfolio towards higher value-added products. • Adaptation to increased biofuel demand.	• Consolidation of our market position. • Improved internal efficiency. • International growth opportunities: North Africa and Portugal. • Marketing Optimization.
• Cost reduction programme and rethinking of investment and development plans adapted to new price environment to achieve greater efficiency. • Reserve replacement in key assets such as Algeria, Abu Dhabi and Latin America, through the extension of existing contracts and selective mergers and acquisitions. • Sustainable long-term growth, through the design of a portfolio that increases reserves (by reducing dependence on exploratory success, and incorporating projects under development).	• Redesign of our product portfolio to manufacture more light products, with higher added value and demand. • Consolidation of value chain optimisation plan, with the aim of improving efficiency of work processes. • Adaptation to biofuel regulation. • Gradual exploration of international opportunities.	• Adaptation of product and service offerings to customer habits and competitive environment, with the aim of consolidating our market position and improving competitiveness. • Implementation of new process optimization projects that help reduce costs and increase efficiency. • Explore opportunities outside Spain that can diversify exposure to the domestic market.

EXTERNAL FACTORS

PRIORITY OBJECTIVES

STRATEGIC ACTIONS

PETROCHEMICALS

- Major growth prospects of chemical products, closely linked to economic recovery.
- Recovery of the phenol market following the stabilization of the Chinese economy and the recovery of the construction industry.
- Increase in demand for LAB compared to replacement products due to low oil prices.

- Maintenance of leadership position in phenol and surfactants.
- Downstream expansion and diversification.
- Opening of new activities, technology innovation
- Planning of new projects in the United Arab Emirates.

- Consolidate leadership position in the LAB and phenol businesses through internal investments or mergers and acquisitions.
- Expand current business with diversification towards higher value-added products in the alcohol value chain, through the phenol and acetone value chain.
- Explore opportunities to continue business expansion.
- Presence in Abu Dhabi through synergies and joint projects with the Mubadala Group.

GAS AND POWER

- Overcapacity of electricity production facilities.- Higher consumption of coal over gas in electricity production.
- Higher growth in demand for gas compared to petroleum.
- Increased opportunities in renewable energies.

- Seeking gas business optimization by ensuring product supply.
- Reducing the regulatory impact on electricity
- Business expansion to new markets.
- Analysis of investment opportunities in renewables in Spain.
- New opportunities in the gas value chain.

- Adaptation of the electricity business to the sector's new regulatory framework.
- The gas business unit will focus on the contractual flexibility of Medgaz and on business expansion through new markets and alternative uses of natural gas.
- Assess opportunities in renewable energies.
- LNG Project in Abu Dhabi.

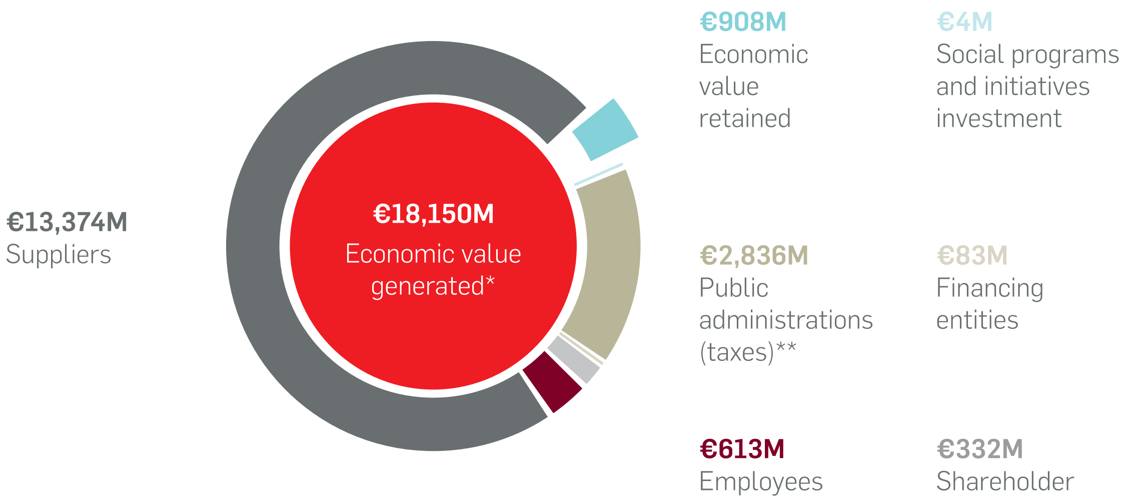
TRADING AND BUNKER

- Increase in business opportunities.
- Oil and product prices on the international market.
- Greater regulation (IMO).
- Geo-political situation.

- Development of a sole entity, sustainable over the long-term.
- Exploration of logistical positioning in new geographical markets with high growth potential.
- Optimization of strategic assets.
- Business expansion.

- Development of sole entity activity, sustainable over long term, initially relying on Cepsa's operations system.
- Development of blending capacity at Cepsa facilities.
- Explore new Trading markets in Asia.
- Expansion of Bunker business in LNG market.

Distribution of economic value generated (millions of euros)



* Value generated mainly represents revenue of €17,949 million, in addition to other items: other operating income (€76 million), financial income (€81 million), share in profits of associates (€35 million) and income on fixed asset disposals (€9 million).

** Includes: special excise taxes and income tax and levies.

BUSINESS MODEL

"We are a global energy company present in every stage of the oil and gas value chain, with nearly 90 years of experience in the industry."

Employing this integrated business model, we achieve greater stability to offset potential adverse impacts on some of the business areas, allowing us to establish synergies between our various activities, thereby increasing efficiency.

We are working on the progressive international expansion of our activities, which are now present throughout the world. As a company with an innovative spirit that is highly adaptable, we undertook a profound culture and strategic change in 2011, when the International Petroleum Investment Company (IPC) become our sole shareholder. In 2016, our shareholder began a process of merging with the sovereign fund Mubadala, ending in May 2017 with the creation of the Mubadala Investment Company.

With the vision of becoming a global energy company of choice, we maintain our firm commitment to providing the energy that every reality needs.

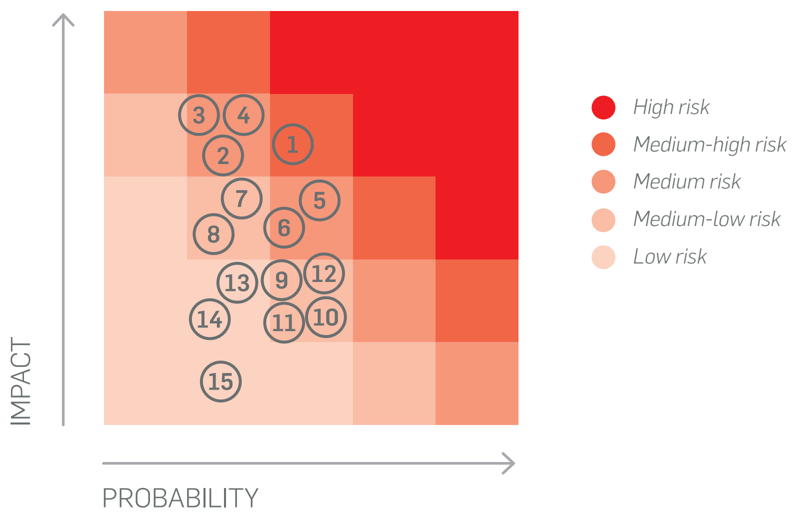
RISKS AND OPPORTUNITIES MANAGEMENT

Cepsa has developed an integrated risk management system (COSO ERM) with the aim of being able to effectively respond to any risk event that may significantly affect its operations or results.

Integrated risk management provides an identification and treatment of the main risks across the company, at the level of the business unit, corporate unit, and at Company level, defining a common risk strategy with an overall view on an aligned and consistent basis at Cepsa.

In 2016, we updated the Group's risk map and inventory, while assessing the impact of risks on the Company and their probability of occurrence. The following is a summary of the updated risk map.

Some of the risks involved are related to corporate responsibility, as is the case for local communities.



1. Refining margin
2. Production and replacement of reserves
3. Operating safety
4. Physical security
5. Regulatory uncertainly
6. Information security
7. Geopolitical risk
8. Technological innovation and trends
9. Commodity pricing
10. Foreign currency risk
11. Market competition
12. Demand evolution
13. Credit risk
14. Local communities
15. Attracting and retaining talent

SHAREHOLDERS' RETURNS

1 2 3 4 7 9 10 11 12 13 15

FINANCIAL ROBUSTNESS

1 2 3 5 6 7 9 10 13

LONG-TERM GROWTH

1 2 5 6 7 8 9 14 15

NEW BUSINESS OPPORTUNITIES

We are always actively seeking out new business opportunities that will help us offset the adverse impacts of the environment in which we operate, and we focus on areas where we find the best possibility, such as Exploration and Production, Petrochemicals and Trading, while maintaining optimization of recurring activities, such as Distribution and Marketing.

LEVERAGING OF OUR INTEGRATED STRUCTURE AND INTERNATIONAL PRESENCE

Integration positions us in every phase of the oil and gas chain and offers great opportunities for improvement of our processes and activities by creating synergies between different business areas, so as to increase efficiency and reduce operational costs.

Our international presence reduces impacts on the business related to the local economic and political context in places where we are present. Also, being a part of Mubadala gives us access and the ability to form strategic alliances between the companies therein, in turn improving efficiency by generating economies of scale.

COMMITTED TO INNOVATION

At present, innovation is a key tool for increasing the efficiency of processes, enabling us to anticipate future regulatory changes that may have an impact on our activity.

FOR MORE INFORMATION ON CEPSA'S RISKS MAP SCAN HERE

THE VALUE OF OUR BRAND

Energy generation and accessibility is a key factor in the progress of any community. At Cepsa, we have the responsibility of generating energy based on criteria of efficiency in the production and use of fuels.

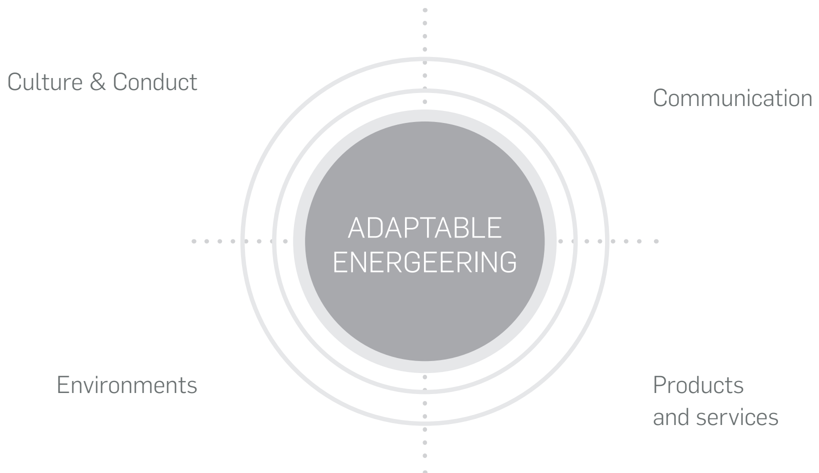
This is why we seek excellence in all our operations through energy engineering that is comprehensive, integral and integrated.

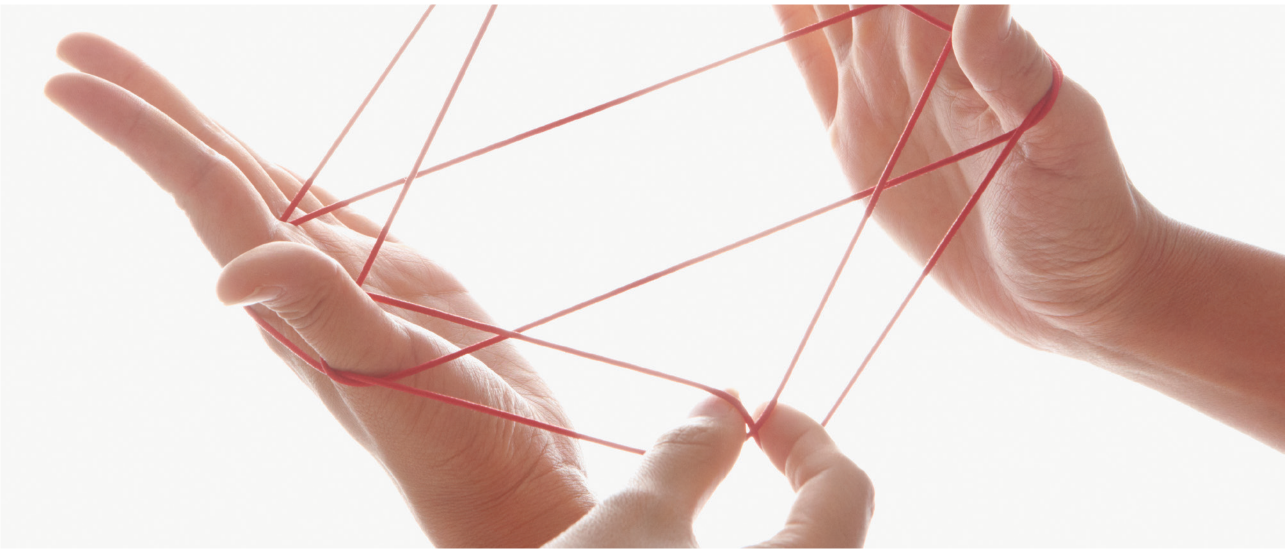
The combination of experience and knowledge, of research and technical ability, of technology innovation and our essential responsibility is what drives us to discover new, better and more sustainable ways to generate and use energy, inspired by a clear vocation: putting it at the service of people.

We want our brand to be perceived for these characteristics and to reflect the values that guide us.

Our manifesto '***Adaptable Energeering'*** is the verbalisation of our promise for each public with which we have a relationship. Through our technical ***excellence and adaptability*** we bring the best of energy to each reality.

This manifesto must be present in all points of contact: products and services, culture, communication and environments.





VALUES ASSOCIATED WITH OUR BRAND

SECURITY

- Integrity of installations and processes.
- Minimization of risks.
- Prevention.
- Safety both inside and outside the workplace.

CONTINUOUS IMPROVEMENT

- Development and retention of talent and knowledge.
- Open attitude to change.
- Foresight and the drive to excel.
- Innovation in both current processes and in identifying new challenges or projects for excelling.

SUSTAINABILITY

- Long-term business strategy.
- Commitment to the environment.
- The welfare of society.
- Ethics and transparency with respect to our stakeholders.

SOLIDARITY

- We generate value both inside and outside our organization.
- We are a team with a global interest.
- We are resilient.

LEADERSHIP

- Recognition
- Professional career.
- Uniform and transparent communication.
- Defence of group's interests.
- Commitment to excellence and teamwork.

OUR BRANDS

With the aim of maximising the value of our brand, we seek the efficient and coherent development of the more than 500 Cepsa brands. We aim to be perceived as a single, global and integrated company that provides different solutions to all energy needs, both present and future.

We continued to develop new brands in 2016. Of these, we wish to highlight two that belong to Cepsa, with two different objectives: one that channels the social work we carry out, and another that offers an advantageous service to a sector of our customers:

A not-for-profit entity of general interest that channels the social action of our company. We are present in Spain, Portugal, Colombia, Peru, Brazil and Canada.

Fundación Cepsa

STARRESSA

A means of payment especially designed for transport professionals.

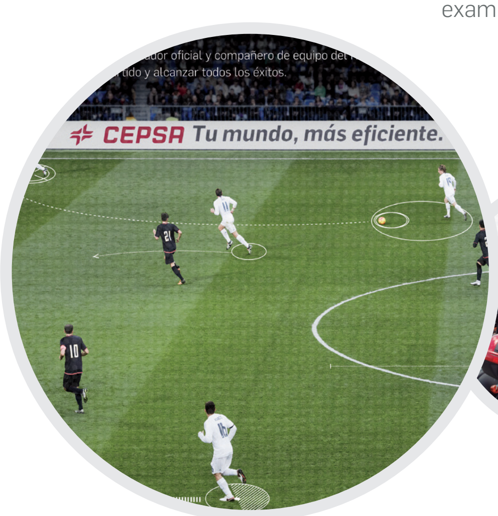
SPONSORSHIPS

In 2016, we continued to support the same sponsorships as the previous year, notably football.

With sporting sponsorships we seek a direct and immediate association of our brand with positive values such as hard work, achieving goals, personal and professional success, or setting an example.

We also take into account the repercussion and impact on reputation of such sponsorships, both at a national and international level.

In our society, there is perhaps no more powerful satisfaction than sport, which can generate so much interest and arouse so much passion.



CHAPTER 4

Efficient and responsible management

70% OF EMPLOYEES TRAINED IN THE CODE OF ETHICS AND CONDUCT

20 SIGNIFICANT THEMES IDENTIFIED AS HIGH AND MEDIUM PRIORITY

NEW STRUCTURE OF CORPORATE GOVERNANCE

"A solid and effective system of corporate governance is essential to ensuring our company's success."

A solid and effective system of corporate governance is essential to ensuring our company's success in the markets where we operate, and to achieve our strategic objectives, while acting as a lever for the creation of long-term value.

The Company is firmly committed to meeting the strictest ethical standards in the conduct of its business, to protecting the interests of stakeholders, and to ensuring a level of leadership that exemplifies the principles and values of trust, integrity, transparency and responsibility.

STAKEHOLDERS

DIALOGUE WITH STAKEHOLDERS

We have channels of communication designed for the needs of our stakeholders, allowing us to identify their expectations and maintain relationships of trust.

One of our objectives is to generate trust among our stakeholders. At Cepsa, we work to build solid and transparent relationships based on communication and dialogue in order to find out what they expect from us and to get better every day.

In 2016, we advanced in the implementation of the policy and system for managing relationships with our stakeholders. To do so, we undertook an implementation pilot project at the Gibraltar-San Roque refinery. The project will be extended progressively to all facilities and geographic areas in which we operate.

SHAREHOLDER

- Our shareholder actively takes part in managing Cepsa through representatives in corporate governing bodies.

PROFESSIONALS

- Ethical Queries Channel.
- Climate and commitment survey.
- Thinkbox channel of ideas and suggestions.
- Corporate Intranet.
- Direct communication

TRADE RECEIVABLES

- Satisfaction measurement systems.
- Complaint management systems.
- Customer service.
- Customer Experience and Service Now for the continuous improvement of satisfaction for the comprehensive treatment of customer incidences.

SUPPLIERS AND SUBCONTRACTORS

- Suppliers' portal on corporate website.
- Satisfaction surveys.
- E-mail contacts and support centres.
- Supplier's day.

COMMUNITY

- Community committees.
- Open days and public consultations.
- E-mail contact.
- Social management teams at our sites.

Category

Environment

Corporate Governance

Economic

Social

WE UNDERSTAND YOUR EXPECTATIONS

We work to get to know better each of our stakeholders through a permanent, fluid and direct dialogue to identify needs and ensure continuous improvement.

In 2016, we carried out a materiality study that enabled us to identify the needs of our stakeholders and the quality of response through our activities, products and services. The results of the study helped us define the structure and content of this report by ensuring that we respond to their concerns.

For their development, we have used both internal and external sources of information, in accordance with the guidelines set out in version G4 of the Global Reporting Initiative (GRI).

Essentially, we have taken account of the information received through the channels of communication with our stakeholders, the assessment of regulatory trends and the voluntary initiatives of the industry. We have also assessed the importance of material issues according to the impact they have on our business strategy and on their potential to generate risks and opportunities for our Company.

WE INCORPORATE YOUR EXPECTATIONS INTO OUR STRATEGY

Our corporate responsibility strategy is defined on the basis of themes that are important to our stakeholders.

An analysis of the maturity of our procedures in each of these significant matters has enabled us to set forth the main lines of the 2017-2019 Corporate Responsibility Master Plan and to align them with the Sustainable Development Objectives.

Material issue	Importance	Where do we respond in the ACRR?	Associated Sustainable Development Objectives
Environmental management	External and internal	5.4. Environment	7, 11, 15, 13, 12, 14
Climate change	External and internal	5.2. Innovation 5.4. Environment	13
Environmental, social and governance risks in the supply chain	External and internal	5.6. Responsible supply chain	11
Regulatory compliance, ethical code and corporate policies	Internal	4.3 Ethics	8, 11, 16
Corporate responsibility strategy	External and internal	4.2 Corporate Governance	11
Transparency and fulfilment of tax commitments	External and internal	4.3 Ethics	16
Monopolistic practices and unfair competition	External and internal	4.3 Ethics	16
Prevention of corruption and bribes	Internal	4.3 Ethics	16
Corporate responsibility governance	Internal	4.2 Corporate Governance	11
Communication and transparency	External and internal	4.1. Stakeholders	
Diversification and international expansion	Internal	2.2. Cepsa around the world 3. Sustainable growth	11
Supply quality and safety	External and internal	5.3. Safety 5.5. Customer service	
Operating efficiency	Internal	5.2. Innovation	9
Customer satisfaction	Internal	5.5. Customer service	
Digitisation of customer relationship	External and internal	5.5. Customer service	
Innovative and sustainable products and services	Internal	5.2. Innovation 5.5 Customer service	9
Employee health and safety	Internal	5.3. Security	3, 8
Facilities security	Internal	5.3. Security	8
Consumer and community health and safety	External and internal	5.3. Security	3
Local community relations	External and internal	5.7. Social well-being	3, 9

"The restructuring of Cepsa's governing bodies in 2016 resulted in a more balanced composition, with a greater presence of independent directors."

CORPORATE GOVERNANCE

GOVERNANCE MODEL

The governing structure of our company follows the governance recommendations set out in the new Code of Governance of Listed Companies in Spain to the extent the Code is applicable to us, regulations governing corporate enterprises, and the best practices and international standards in this field.

At Cepsa, we continuously review and update our rules of corporate governance in order to implement these recommendations and apply the best practices.

The latest Corporate Governance regulatory changes and reforms introduced by the Spanish Limited Liability Companies Law, the new Code of Good Governance and the Audit Law have strengthened the powers of oversight and control of the Audit Committee, and reinforced its independence requirements.

Based on these changes in the regulatory framework, the Board of Directors of Cepsa approved, in September 2016, a new corporate governance structure in order to comply with these new requirements and to implement a system of governance based on the principles of responsible, sustainable and transparent management, commitment to our stakeholders and the generation of long-term value.

SCAN HERE FOR MORE INFORMATION ON THE BIOGRAPHIES OF THE BOARD MEMBERS

BOARD OF DIRECTORS

Cepsa's Board of Directors comprises seven directors that are appointed for the statutory term of six years. They are all of recognized prestige, have high qualifications and extensive experience in the sectors of industry, energy and finance.

Composition of the Board of Directors and of its executive committees (at 31 December 2016)

Names	Board of Directors	Audit, Compliance and Ethics Committee	Appointments and Remuneration Committee	Director type
S.E.D. Suhail Al Mazrouei	Chairman	-	-	External proprietary
Pedro Miró Roig	Vice-Chairman and CEO	-	-	Executive
Abdulla Al Dhaheri	Member		Chairman	External independent
Abdul Munim Al Kindy	Member	Member	-	External independent
Alyazia Al Kuwaiti	Member	Member	Member	External proprietary
S.E. Mohamed Al Suwaidi	Member	-	Member	External independent
Ángel Corcóstegui Guraya	Member	Chairman	-	External independent
Ignacio Pinilla Rodríguez	Secretary	Secretary	-	
José Téllez Menchén[8]	Vice-Secretary	Vice-Secretary	-	
Carlos Morán Moya[8]	-	-	Secretary	

[7] He resigned from all positions on 9 April 2017. He was replaced by Mr. Musabbeh Al Kaabi, as an external proprietary director on 26 April 2017 by the Sole Shareholder.
[8] Non-Director.

OUR GOVERNANCE STRUCTURE AND MAIN MILESTONES OF 2016

BOARD OF DIRECTORS

7 meetings

Functions: supervises and monitors management and performance of businesses, approves Company's plans, policies, objectives and strategies, including risk management and control policy and tax strategy, and ensures their execution and implementation.

2016 milestones: among other functions, the Board of Directors approved the new corporate governance structure, with a change in the name of the Audit Committee and a broadening of its functions, the restructuring of the Ethics Committee, and the creation of two new operating committees, all three directly reporting to the Audit, Compliance and Ethics Committee. It also approved the new regulations of the two Board committees.

It also prepared and approved the Financial Statements and Directors' Report of Cepsa and its Group for 2015; and approved the Group's 2017-2021 Strategic Plan.

AUDIT, COMPLIANCE AND ETHICS COMMITTEE

4 meetings

Functions: supervises internal audit, internal control systems, compliance and risk management, in addition to the process of preparing and reporting financial information and relations with the external auditor. Reviews and proposes policies in relation to the main stakeholders for the approval of the Board of Directors.

2016 milestones: the Audit, Compliance and Ethics Committee carried out the periodic review of economic and financial information and of external audit reports, in addition to control of the independence of the Auditor, and oversaw the functioning of internal control and risk management systems, approved Cepsa's general risk map, supervised the assessment of hydrocarbon reserves and reviewed the company's Code of Ethics ad Conduct, adapting it to the new model and of assurance.

BOARD COMMITTEES

APPOINTMENTS AND REMUNERATION COMMITTEE

7 meetings

Functions: analyses, reports and proposes the remuneration policy of members of the Board of Directors and Management of Cepsa, and presents proposals to the Board on decisions to be made in cases of conflicts of interest.

2016 milestones: the Appointments and Remuneration Committee, among other matters, analysed the remuneration policy of senior management and approved adjustments thereto in order to maintain its alignment with the interests of the shareholder pursuant to best practices. The Committee approved the assessment of results in achieving 2016 Objectives and set them for 2017 for short-term variable remuneration and the long-term incentives plan, and prepared a recommendation for approval by the Board. It also reviewed and approved the rules for the Company's succession plan.

Audit Operating Committee

No meetings

Functions: acts as a liaison between the external auditor and the Audit, Compliance and Ethics Committee in order to analyse the auditor's independence and supervise, guide and drive the internal audit function.

Compliance Operating Committee

1 meeting

Functions: coordinates the compliance programmes to ensure their adequate functioning. Supervises the functioning and compliance of the Company's model of criminal prevention and oversees compliance with applicable legislation.

Ethics Operating Committee

4 meetings

Functions: sets the ethical tone of Cepsa, promotes the ethical conduct of employees and answers any ethics queries that may arise, resolving any ethical breaches that have occurred**.**

MANAGEMENT

Our company's management committees support the Board in its tasks and in the performance of its responsibilities. The Company's three highest executives are on these committees: the CEO, the Chief Financial Officer and the Chief Operations Officer, in addition to the heads of the business units and the functional areas, depending on the committee.

EXECUTIVE COMMITTEE

Meeting every 15 days or whenever convened by the Chairman

Functions: supervise and coordinate business units and corporate functions. Analyze and propose objectives, strategic plan and annual budget. Approve policies and initiatives of the different business units and areas.

RISK COMMITTEE

4 meetings

Functions: propose the strategy and Global Risks Policy for Cepsa, under which the business units and corporate areas should develop.

INVESTMENT COMMITTEE

10 meetings

Functions: analyze the large investments that the Company plans to make before their presentation to the Board.

SCAN HERE FOR MORE INFORMATION ON THE BIOGRAPHIES OF THE BOARD MEMBERS

BOARD AND SENIOR MANAGEMENT REMUNERATION

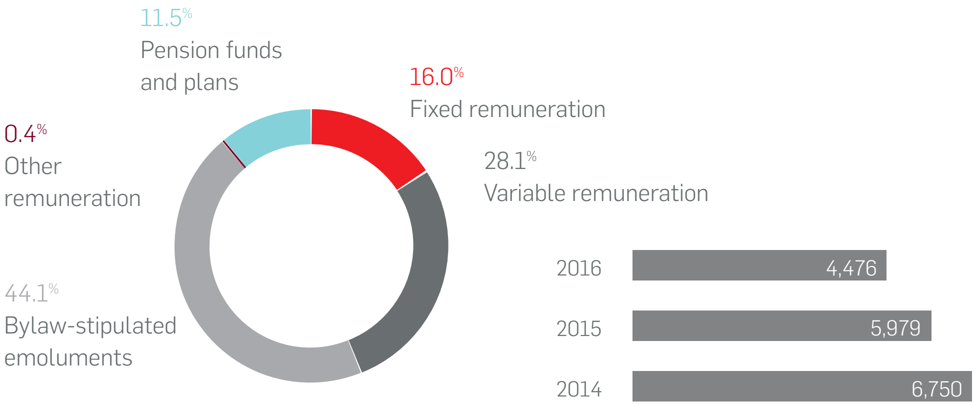
In 2016, the Company's remuneration policy was aligned with the best market practices and trends.

Remuneration of the Board is regulated by the Company's Articles of Association and the Regulations of the Board of Directors. The system of remuneration in force in 2016 was approved by our shareholder in January of the same year. It sets an annual fixed remuneration to be distributed among directors in the time, form and proportion to be decided by the Board of Directors itself, pursuant to the recommendations of the Appointments and Remuneration Committee and in accordance with the post held by each director.

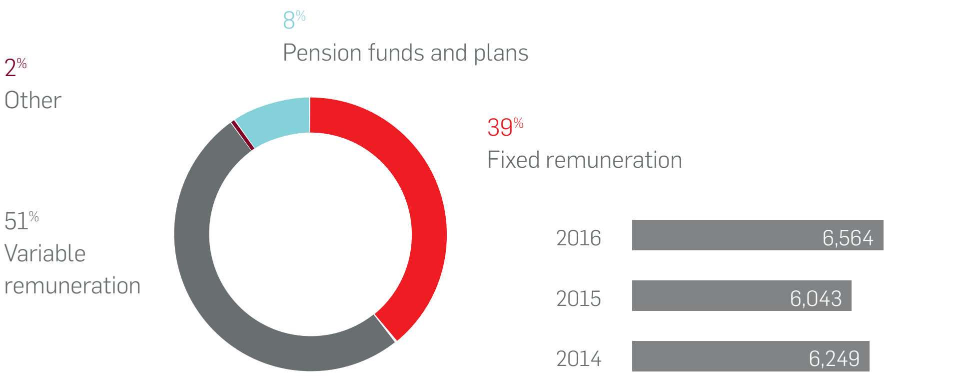
Our system of remuneration of the Board does not include agreements under which members of the Board of Directors are entitled to receive from the Company compensation arising from their termination as directors. Also, fees for attending Board meetings were eliminated.

It is the responsibility of the Appointments and Remuneration Committee to set the conditions and amounts of remuneration of the Company's senior management and executives. This remuneration consists of a fixed and a variable portion, which is a percentage of the fixed remuneration depending on the degree of achievement of both the short-term targets and long-term objectives. These targets relate to consolidated profits, rates of safety at work and sustainability, as well as business operating issues. Total variable remuneration is ultimately modulated by the degree of individual performance

Directors' remuneration
(Thousands of euros)



Remuneration of senior management
(Thousands of euros)



CR GOVERNANCE AND STRATEGY

We work across all of Cepsa's areas and businesses, centralizing management in the Division of Communication, Institutional Relations and Corporate Responsibility, with the mission of channelling and standardising all actions related to the Corporate Responsibility Master Plan with a definite methodology.

To ensure that all our activities are carried out in a responsible manner, we have a Compliance Operating Committee that is responsible for reviewing the corporate responsibility policy and proposing it for the approval of the Board's Audit, Compliance and Ethics Committee and for reviewing the Annual Report and Corporate Responsibility Report.

Corporate responsibility plan

In 2016, we evaluated the results of the 2013-2015 Corporate Responsibility Master Plan, and found a high percentage of compliance with the plan in all business areas. This success was possible because of the involvement of the main divisions, which incorporated Plan actions in their strategic objectives, and because of the methodology used for monitoring the Plan, which involved all areas through the creation of a cross-disciplinary working group, with bi-annual meetings chaired by our CEO.

ETHICS

We have approved and deployed our Code of Ethics and Conduct and the associated internal regulations, and developed the complaints procedure.

GOOD GOVERNANCE

We have worked on improving our transparency in Corporate Governance.

ENVIRONMENTAL MANAGEMENT

We have optimised the environmental management processes, to minimise impact, focussing on biodiversity and sustainable management and water strategy.

CUSTOMERS

We have worked on improving the customer experience, and on developing systems to collect complaints and suggestions, with the aim of improving our customer satisfaction.

SOCIETY

We have developed dialogue mechanisms adapted to each stakeholder group and we have optimised procedures for measuring Social initiatives.

EMPLOYEES

We have focussed our efforts on improving employee satisfaction, increasing transparency and fostering innovation, via new tools that we have created.

SUPPLIERS

We have established new mechanisms for dialogue and for improving transparency with our suppliers and subcontractors, as well as initiating plans to foster local procurement.

Furthermore, in 2016, we have worked on defining the Corporate Social Responsibility Master Plan, which will run until 2019 and which serves to bring Cepsa in line with best Corporate Responsibility practices, offering an effective response to commitments with stakeholders and serving as a strategic lever to achieve the company's goals.

This Plan will be approved in 2017 and more active involvement is expected from all corporate areas and businesses. To define the plan, the outcomes of the previous plan have been taken into consideration, as has the analysis of the requirements identified by our stakeholders and the risks and opportunities foreseen for the coming period, prioritizing areas that are most relevant to our stakeholders and our Strategic Plan.

We have an ethical business management model, supervised by the Auditing, Compliance and Ethics Commission, which is responsible for promoting, monitoring and controlling the compliance of values, principles and rules of conduct established in the Code of Ethics and Conduct, as well as analyzing and responding to ethical dilemmas that may arise or are being investigated.

ETHICS

At Cepsa, we are firmly committed to ethical conduct and integrity in all our activities.

A Code of Ethics and Conduct is in place, with 16 Ethics Directives in place to develop the Code; these Directives establish the conduct guidelines to be applied to our activities, setting the tolerance level assumed by the Cepsa Group.

Our Code also complies with the principles and values of our company and is binding on all persons to which it applies.

Different mechanisms are in place to oversee compliance with and the dissemination of the Code of Ethics:

TRAINING

Over the course of the year, a range of in-person and online training initiatives are organized that seek to raise awareness of the company's ethical standards amongst our employees. All Cepsa employees have access to courses, which are available at all times, to enhance their knowledge of the company's values and principles.

More than 70% of employees have received training on the Code of Ethics and Conduct and 65% are affiliated to it.

COMMUNICATION CHANNELS

We have an Ethics Channel to communicate incidents and report irregularities, as set out in the Code of Ethics and Conduct. It is available to all stakeholders on our corporate website. Furthermore, a consultation channel has been set up on our intranet for the exclusive use of employees, which serves as a space for raising ethical conflicts and dilemmas to be resolved by the Operational Ethics Committee.

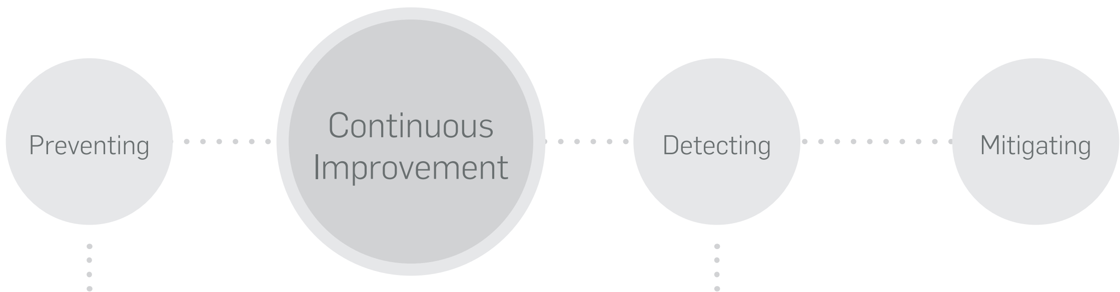
In 2016, this Committee received a total of 21 complaints relating to breaches of the Code of Ethics and Conduct. At the date of issue of this report, all the aforementioned complaints have been investigated in full. In any case, we have established the corrective measures deemed necessary to safeguard the Code's principles.

"Our governance model is based on the Company's Mission, Vision and Values, as well as on the content of the Code of Ethics and Conduct which is the framework for our professional practice. "

COMPLIANCE AND CONTROL FUNCTION

In 2016, we have implemented a comprehensive methodology for establishing a Corporate Compliance Model that allows us to identify compliance risks and implement preventive and detective measures in addition to sanctioning conduct that may result in company or employee liability, including the commitments acquired by Cepsa under its Code of Ethics and Conduct, in addition to Corporate Responsibility.

The Corporate Compliance Model is headed by the Compliance Unit, within the Internal Audit, Internal Control, Compliance and Corporate Risks division, which reports to the Board's Audit, Compliance and Ethics Committee.



- Analysis of businesses/ regulations/risks
- Policies and processes
- Training
- Communications
- Complaints channels
- Integration of management processes

- Investigations
- Checks
- Controls

- Plan for fines
- Traceability
- Effective supervision

We have strengthened our compliance and control mechanisms by creating an Operational Compliance Committee under the Board's Audit, Compliance and Ethics Committee, whose main responsibilities include supervising compliance risks and disseminating the compliance culture throughout the company via the training and communication plans.

We perform an annual assessment on the effectiveness of the Company's main internal control systems via the different units, supervised by the Board's Audit, Compliance and Ethics Committee and its operational executive committees. We work on different areas and programmes, including:

We consider it to be essential that our partners maintain ethical, social, and environmental standards in line with our own. We also carry out audits to analyze the needs and specifications of every operation and we include relative clauses regarding the contracts that we sign with our counterparts.

Prevention of Corruption

At Cepsa, an Anti-Corruption Policy is in place that establishes the procedural guidelines relating to fraud, transparency and the fight against corruption. Furthermore, mechanisms have been rolled out to prevent, detect and investigate possible cases of corruption.

Should a potential instance of corruption need to be examined, we would proceed with an investigation and inform the corresponding parties of the relevant disciplinary measures to be taken, in addition to any remedial action required to resolve internal control issues.

This anti-corruption model applies to the entire value chain, with audits performed on non-operated assets.

In 2016, four complaints have been received via the Ethics Channel that correspond to corruption, of which three related to Spain and one to Colombia. All incidents have been investigated and completed with no significant impact on Cepsa, as these cases involved corruption between individuals. Two cases resulted in the fair dismissal of the employees involved in the corrupt practices.

Following the reform of the Spanish Penal Code and international regulatory changes in terms of the criminal liability of legal persons, Cepsa is gradually rolling out crime prevention models in the different countries in which we operate, prioritizing compliance with the corresponding local regulations.

The main objective of the Crime Prevention Model is to prevent and, where appropriate, unearth criminal conduct on the part of directors and employees of Cepsa's Spanish companies. In 2016, we adapted the Crime Prevention Model applicable to Spanish trading companies to the guidelines established in Circular 1/2016 of the Public Prosecutor and ISO 19600 on Compliance Management Systems.

This compliance system, made up of 223 controls certified internally by the Internal Control and Compliance Unit each year, is overseen by the Operational Compliance Committee, which reports to the Board's Audit, Compliance and Ethics Committee.

In turn, in 2016 we have implemented a system for controlling the knowledge of our counterparties with a view to protecting Cepsa in terms of any regulatory breaches deriving from the regulation of sanctions and international embargoes, as part of which sanctions apply to all companies that have business relations with countries or physical or legal third parties sanctioned by the regulation.

Internal Control over Financial Reporting Systems (ICFR)

The Board's Audit, Compliance and Ethics Committee is tasked with overseeing ICFR, which seeks to ensure a reasonable control environment in the preparation of financial statements. We have considered fraud risk as a relevant element in the design of the control system. The implementation and supervision of ICFR has been undertaken pursuant to a methodology based on COSO 2013. This control model, made up of 500 controls, is updated, assessed and certified each year by the Company's Management. In 2016, Management certified this system without having identified any significant weakness.

Protection of Competition Programme

This compliance programme addresses communication, training, prevention and supervision tasks to create a culture of free competition in all our activities. In 2016, we completed the training process in all Cepsa's business areas.

In terms of the appeals filed by the Company against the Resolutions of the Spanish National Commission on Markets and Competition (CNMC) in January and February 2015, which imposed fines of €10 million and €2.5 million on Cepsa, both were appealed before the Spanish High Court. The hearing stage of both appeals is now over and only the announcement of the vote and judgement date is now pending.

CHAPTER 5

Cepsa in 2016

TALENT

65%
6,344
MEN

9,823
EMPLOYEES

35%
3,479
WOMEN

Integration
92%
EMPLOYEES ON PERMANENT CONTRACTS

Attracting and retaining talent
12.3
AVERAGE LENGTH OF SERVICE

Training and development
28.7*
HOURS OF TRAINING PER EMPLOYEE

Performance
45%
EMPLOYEES WITH INDIVIDUAL EVALUATION

Work-life balance
43%
EMPLOYEES THAT WORK REMOTELY**

Labour relations
94%
EMPLOYEES COVERED BY THE COLLECTIVE EMPLOYMENT AGREEMENT

* This figure represents employee training in Spain.
** Of those at which the programme is aimed.

STRATEGY

We are committed to strengthening our ability to attract and retain the best professionals and experts looking to develop their long-term professional future with us. In 2016, we have worked on improving our performance in this regard:

- STRENGTHEN OUR POSITION AS EMPLOYERS.
- STRENGTHEN THE COMMITMENT OF OUR EMPLOYEES.
- INCREASE PRIDE IN BELONGING TO OUR BRAND AND INCLUSIVE CULTURE.
- CONTINUE TO MAKE PROGRESS WITH CEPSA'S VALUE RECOGNITION SCHEME.

In doing so, we have implemented improvements following suggestions made as part of the climate survey, developed our activities based on best market practices, worked on integrating values into our working culture and promoted actions that foster a sense of pride in belonging to our team of professionals.

ATTRACTING AND RETAINING TALENT

At Cepsa, we run internal and external selection processes and promote employee mobility to respond to human resource requirements in an appropriate manner. Thanks to these actions, the average length of service per employee is 12.3 years.

	Under 30 years		Between 30 and 50 years		Over 50 years		
	Female	Male	Female	Male	Female	Male	*Total*
New recruits in 2016[9]	397	442	674	638	62	103	*2,316*
Departures in 2016[10]	411	362	631	670	319	117	*2,510*

[9] Only includes new recruits.
[10] This mainly excludes leaves due to transfers, unpaid leave, employment and salary disciplinary action.

The highest number of new recruits and departures took place in Spain and Portugal. The reduction in the workforce is primarily attributable to the sale of the PTA/PIA business and the reorganisation of the service station network.

At Cepsa, we have rolled out a model for attracting young talent to cover medium- and long-term recruitment needs. Following the roll-out of our Talent Call model, comprising the Welcome U, Developing U and Challenging U schemes, we have offered grants to 274 young people who completed their professional internships with us in 2016.

22.03%
RECRUITMENT RATE

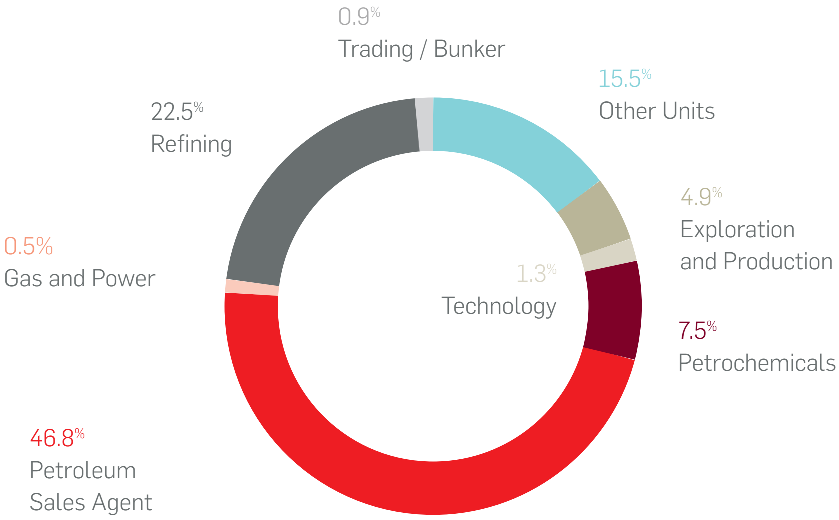
24.76%
TURNOVER RATE

WORKING CULTURE

At Cepsa, we have an excellent team of professionals who share the Company's Mission, Vision and Values, allowing us to achieve our corporate goals.

We enjoy an international presence throughout the value chain of our activities, which is also reflected in the diversity of our human team:

Personnel per business



Employees at 31 December 2016	Under 30 years		Between 30 and 50 years		Over 50 ayears		
	Female	Male	Female	Male	Female	Male	*Total*
Executive Committee	-	-	-	3	-	13	*16*
Manager	-	-	5	16	6	54	*81*
Heads of Department	-	-	94	274	45	203	*616*
Senior Technicians	43	55	373	831	71	304	*1,677*
Intermediate technicians	19	27	329	647	75	311	*1,408*
Specialists	234	240	1,653	2,301	377	878	*5,683*
Administrative staff	6	10	84	31	23	17	*171*
Assistants	6	12	24	95	12	22	*171*
Total	*308*	*344*	*2,562*	*4,198*	*609*	*1,802*	*9,823*

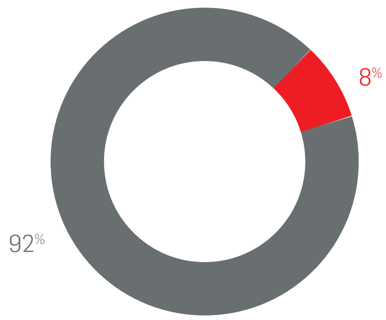
Geographic region	Female	Male	*Total*
Africa[11]	8	105	*113*
America[12]	136	425	*561*
Asia[13]	64	138	*202*
Spain	2,946	5,412	*8,358*
Rest of Europe[14]	325	264	*589*
Total	*3,479*	*6,344*	*9,823*

[11] Africa includes: Algeria and Kenya.
[12] America includes: Brazil, Canada, Colombia, Panama and Peru.
[13] Asia includes: China, United Arab Emirates, Malaysia, Singapore and Thailand.
[14] The Rest of Europe includes: Belgium, Italy, the Netherlands, Portugal and the United Kingdom.

Personnel per type of shift

- *% of full day workers*
- *% of part-time workers*

Personnel per type of contract



- *Employees with permanent contract*
- *Employees with temporary contract*

We promote an inclusive culture, and our firm commitment to developing respect for diversity and the promotion of non-discrimination in all its dimensions is reflected in our Code of Ethics and Conduct. To achieve our goal:

- We implement flexibility measures that make it possible to strike a work-life balance, in the belief that motivated employees are more committed and, therefore, more efficient and productive.

  In 2016, 61 women and 123 men were entitled to maternity/paternity leave, with all the aforementioned individuals fully exercising their entitlement.

  In this regard, in 2016 we implemented a Remote Working scheme at our head office and sales offices, to which 778 workers are affiliated, a total of 43% of the employees targeted by this scheme.

- We encourage and work to maintain the certificates and distinctions that demonstrate Cepsa's commitment and evolution in terms of aspects relating to equal opportunities, non-discrimination and respect for diversity.

95%
RETURN FROM MATERNITY/ PATERNITY LEAVE

100%
JOB RETENTION
(12 MONTHS AFTER RETURNING FROM MATERNITY/PATERNITY LEAVE)

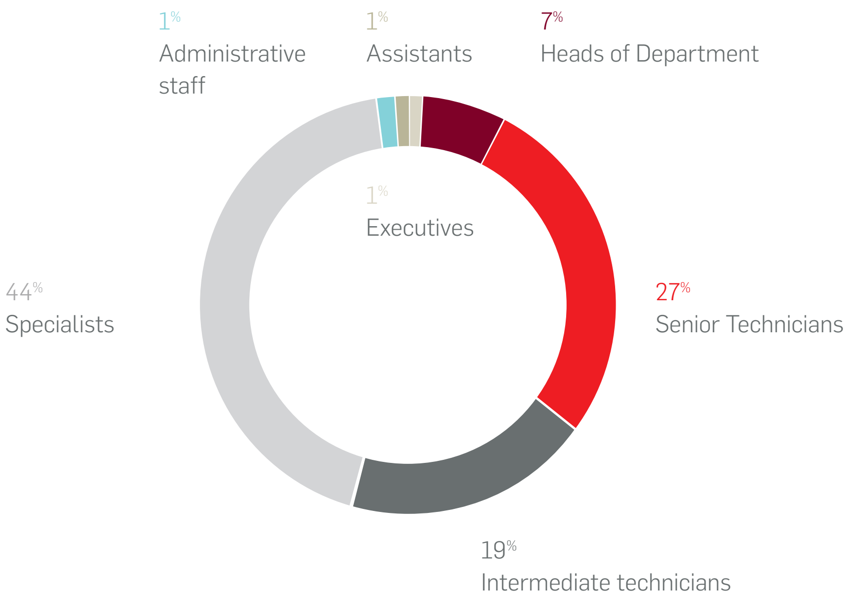
TRAINING AND DEVELOPMENT

Our permanent aim is to improve the skills and competencies of our employees with a view to ensuring that they can securely and confidently address the constant challenges that technical and environment developments pose as part of their responsibilities.

Training by professional category[15]	Hours of training	Training hours per employee during the year
Manager	2,306	25.7
Heads of Department	15,898	32.1
Senior Technicians	64,637	49.2
Intermediate technicians	46,349	41.5
Specialists	103,413	20.5
Administrative staff	1,834	15.1
Assistants	3,291	29.5
Total	*237,728*	*28.7*

[15] Only includes data relating to Spain.

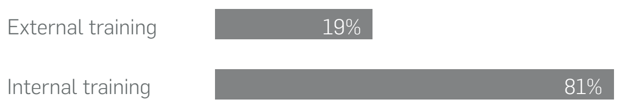
Training by professional category



6,455 EMPLOYEES TRAINED

2,546 THOUSANDS OF EUROS INVESTED IN TRAINING

Type of training



In 2016, we have rolled out the training and development efficiency plan, which has made it possible for us to adapt current needs identified to training initiatives that respond to those needs, without affecting critical business training, safeguarding our management systems and enhancing the responsibility and commitment of all our employees.

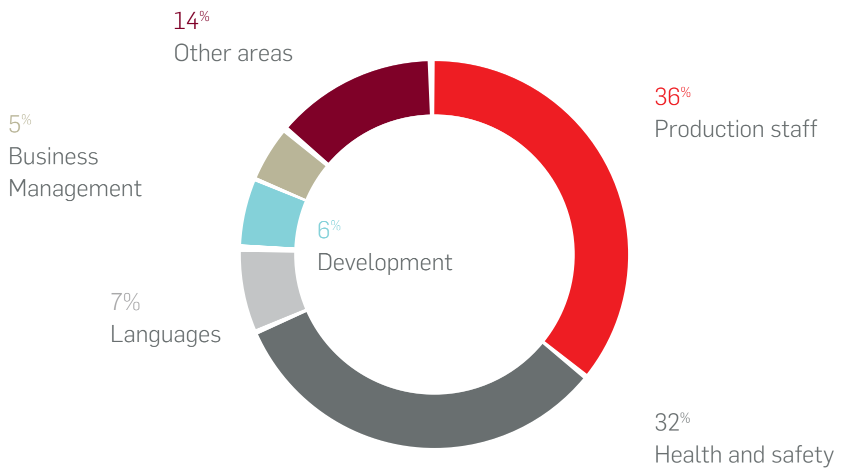
As part of the training initiatives undertaken in 2016, the following is worth particular note:

- The implementation of the Corporate Responsibility and Code of Ethics training plan, which has made it possible to give training on Cepsa's sustainable model to all employees at the different Group companies and countries via four modules that include aspects such as bribery and corruption, human rights, the environment and security.
- Training programmes on operational optimization and efficiency at the Palos Plant: Plan to Modernise Operational Structures (PMDEO) to optimise resources at Power Plants-FCC and Fuels 1 and design for the implementation of the automation project for the Oil Movement System (OMS) at the La Rábida refinery, in addition to training on the implementation of Phenol 1 at Cepsa Química.
- Occupational Risk Prevention training extended in 2016 to employees affiliated to the Remote Working scheme, offering them the training required to perform a basic assessment of workplace risks and improve their day-to-day safety. We have also made efforts to promote Occupational Risk Prevention certification, with 731 employees having obtained a basic or higher qualification on this topic.

As part of continuous training activities, we organize professional training initiatives each year relating to workplace matters that can also be applied to both the personal lives and overall employability of our employees:

- Language training programme: a total of 17,137 hours of training were given in classes, online or over-the-phone training formats in 2016.
- Skills (development) training programme: over the course of the year, skills training has been offered to around 3,000 employees. Moreover, skills courses and resources that can be accessed freely by all employees are available on Campus Cepsa.

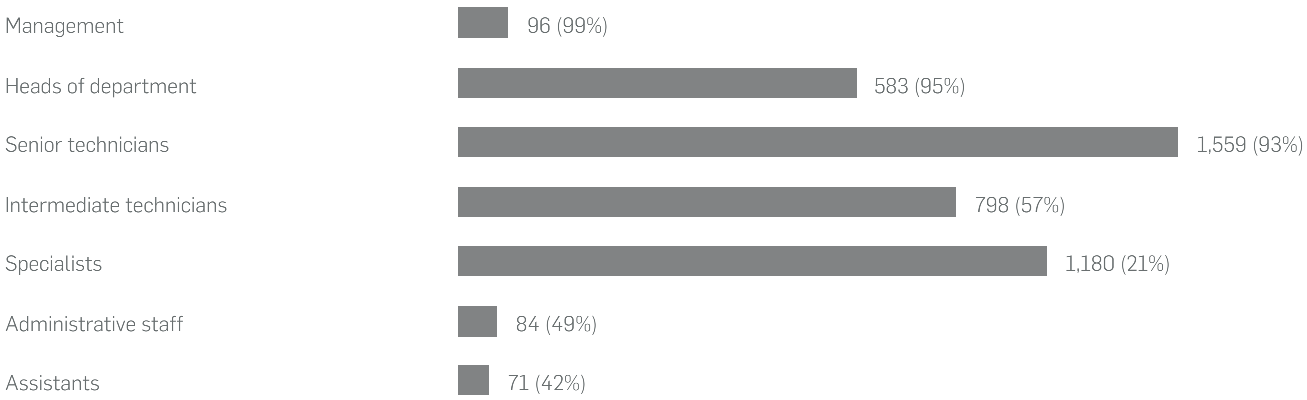
Areas of training delivered



PERFORMANCE

We undertake individual performance assessments that allow us to assess the contributions of our employees and in turn improve the way in which they go about their work and enhance their motivation. In 2016, we have updated our integrated assessment model to facilitate the work undertaken by assessors and provide more accurate and useful results to those participating in processes:

Employees who have received performance reviews



LABOUR RELATIONS

9,258
EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS

At Cepsa, we believe that respect for the right to be a union member is essential and we work to maintain an ongoing dialogue with trade unions.

To this end, in addition to complying with the legislation in force, the Code of Ethics and Conduct reflects our commitment to working in accordance with internationally recognised laws and practices, such as the United Nations Universal Declaration on Human Rights, the Declaration on Fundamental Principles and Rights at Work established by the International Labour Organisation (ILO) and the Guidelines for Multinational Enterprises of the OECD.

INNOVATION

"We are supported by a strong Research Centre that, in collaboration with the Engineering and Technological Development area, helps us to offer high-quality, innovative and sustainable products to the market."

ENGINEERING

In 2016, the Cepsa Technology Unit worked on the following projects:

- La Rábida Refinery: optimization of the Aromatics plant to manufacture products used as raw materials in the chemicals industry.

- Increase in the conversion capacity at the ISOMAX plant at the Gibraltar-San Roque refinery to convert vacuum gas oil into light gas oil (Mild Hydrocracking conditions MHC). This allows us to increase the production of middle distillates.

- New Meta-xylene production plant (MX-SOBEX 2) at the Gibraltar-San Roque refinery, which will result in an increase in the manufacture of this product, used as a raw material in the chemicals industry.

STEEL STRUCTURE
550 TONES

CONCRETE
2,500 m^3

PIPING
95,000 DIA

CABLE
40 KM

EQUIPMENT
95

MANPOWER (average)
200 PERSONAS

TECHNOLOGY

Over the course of the year, we have worked on developing the technology of the new bottom-of-the-barrel conversion unit at the Gibraltar-San Roque refinery for the production of middle distillates.

This project seeks to convert heavy fractions into middle distillates, which have a higher added value, in turn increasing the versatility of the refinery's production, which is of vital importance to become increasingly more competitive in today's market.

COMPLETED PROJECTS

Below are a number of the most noteworthy projects completed by the Technology division in 2016:

- Improvement in the management of produced water and the gas compression capacity at the Ourhoud field (ORD), allowing us to increase production by 30,000 barrels per day.

STEEL STRUCTURE
600 TONES

CONCRETE
1,250 m^3

PIPING
72,000 DIA

CABLE
140 KM

EQUIPMENT
103

MANPOWER (average)
400 PEOPLE

MAN HOURS
1,9 MILLON

- New vegetable-based alcohol plant for use as raw material in the production of detergents in Dumai (Indonesia). This project has been assisted by the creation of an analytical support group for new oleochemical detergent plants in Dumai and Genthin, developing a method for assessing vegetable oils, alcohols, alcohol derivatives, detergent formulations, etc.

STEEL STRUCTURE **6,800 TONES**	CABLE **819 KM**
CONCRETE **57,000 m^3**	EQUIPMENT **800**
PIPING **361,000 DIA INCH**	MANPOWER (average) **2,000 PEOPLE**

- Upgrading of the Linear Alkylbenzene production units (LAB, raw material for biodegradable detergents), at our chemicals plants in Brazil. The project has resulted in an increase in production, from 200 kt/year to 230 kt/year. This project also includes a new Clay Treatment Unit, a new Pre-fractioning phase to improve the plant's energy efficiency and a new Electrical Substation.

STEEL STRUCTURE **140 TONES**	CABLE **116 KM**
CONCRETE **810 m^3**	EQUIPMENTS **65 + 43**
PIPING **60,000 DIA**	MANPOWER (average) **200 PEOPLE**

R&D PROJECTS

Over the course of 2016, the Research and Development division has organised a range of innovative projects that ultimately seek to open businesses up to new opportunities and improve existing processes at our production centres.
In 2016, the Research Centre worked on more than 50 projects, including:

- Non-conventional reforming project, the objective of which is to optimize the production of benzene at the Gibraltar-San Roque refinery by improving the RZ-100 Platforming process. Over the course of the year, a range of prototypes developed by UOP have been assessed with a view to obtaining a new generation of non-conventional reforming catalyser. Currently, industrial tests are ongoing at our Platforming plant at the Gibraltar-San Roque refinery.

- 'Bottom-of-the-Barrel' project. For the large part, this project has focussed on studies to transform the non-converted bottom, as part of technology still subject to research, into marine fuel and tarmac for different types of surfacing. The project, still in the research and development stage, will remain in the pilot phase during 2017 at the Research Centre.

- Project to support Cepsa Química Bécancour in Canada, assessing alternatives to the unit's conventional catalyst. Pilot studies undertaken have identified a second generation of the DETAL catalyst and establish the best load model to improve the LAB's performance and selection.

- Concerning the Upstream division, projects that seek to improve the recovery of crude from deposits are worthy of particular mention:

- Start of the FAWAG (Foam Assisted Water-Alternate Gas) project in Algeria, where WAG technology was already being employed. The project seeks to improve recovery, alternating water and gas injections assisted by the injection of foam to prevent preferential flows and improve the sweep.

- CEOR (Chemical Enhanced Oil Recovery) technology applied to carbonate fields and support for the Caracara pilot. Carbonate fields pose a huge technological challenge given their characteristics (high salinity and temperature and crystalline structure and rock composition). Significant progress has been made coinciding with the start of cooperation between ADNOC, our Research Centre and the Exploration and Production division.

SAFETY

"At Cepsa, we regard safety as a comprehensive policy that addresses both individuals and operations and products. This involves a commitment as part of day-to-day activities, risk analysis and process and product change management, in addition to the involvement of all employees in their prevention."

-7%
RATE OF ABSENTEEISM

NEW **EXCELLENCE IN SAFETY** PLAN

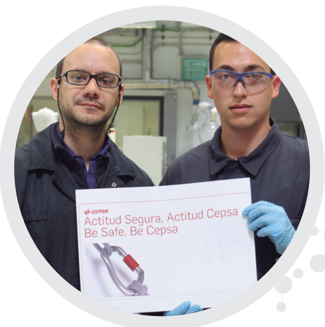
NEW PROCEDURE **13 LIFESAVING RULES**

-17%
OCCUPATIONAL ACCIDENTS RESULTING IN LEAVE

PRODUCT SAFETY QUERIES VIA THE CHANNEL **SERVICE NOW**

36%
SECURITY EMPLOYEES TRAINING ON **HUMAN RIGHTS**

HEALTH AND SAFETY OF OUR EMPLOYEES



Wherever we operate, we seek to decrease risks by reducing accident rates and possible consequences to a minimum. This involves ensuring that facilities are well designed, safely run and appropriately maintained.

We address all these aspects in our Health, Safety, Environmental Protection and Quality Policy, which sets out the corresponding objectives for the year, with a special emphasis being placed on training as a means of improving health and safety.

In this regard, and in order to mitigate risks and reduce accidents, in 2016 we have approved a new procedure that includes safety rules and guidelines, in addition to 13 lifesaving rules considered essential for our employees and associates. This procedure also establishes:

- Its communication and dissemination to all centres.
- Mandatory compliance therewith and a program to detect its enforcement.

Furthermore, we have launched our Excellence in Safety Plan, comprising a series of actions supported by Management's firm leadership which is dedicated to preventing all types of accidents and which contains improvements received from throughout the organisation via multidisciplinary safety groups. The foregoing is backed up by a dedicated communication plan.

In 2016, there were no deaths as a result of our activities.

Accident and absenteeism rates[16] (In-house personnel)	2016	2015	2014
Number of occupational accidents resulting in leave[17]	34	41	48
Frequency of accidents resulting in leave[18] (In-house personnel)	1.86	2.08	2.40
Frequency of accidents resulting in leave[18] (In-house personnel + Contractors)	1.24	1.75	1.85
Absenteeism rates due to common illness (%)	2.23	2.38	1.56
Total rate of absenteeism (%)[19]	3.49	3.77	2.55

[16] Absenteeism data relates to companies located in Spain.
[17] Accidents that give rise to temporary or permanent disability or death.
[18] Number of accidents resulting in leave per million hours worked.
[19] Numbers of hours absent for any reason during the theoretical annual working year.

Frequency of accidents by business (in-house personnel)

SAFETY AT FACILITIES

Process safety

Occupational accidents resulting in leave

-17%
ACCIDENT RATE

In 2016, we approved the Process Safety Management Manual at Cepsa, which will be developed in line with the requirements established by the Energy Institute. We have adopted this model on a voluntary basis with a view to ensuring the integrity of activities involving our company's assets. In short, this Manual seeks to:

- Reduce and/or minimize the consequences of serious accidents inherent to our businesses.
- Define policies and principles within our process safety management framework.
- Unify criteria and standards relating to process safety.
- Satisfy the expectations of each of the elements comprising the process safety management system, as established by the Energy Institute.

In this regard, specific training has been delivered to Management and senior managers and a group of experts in business operations is currently performing a business-wide situation diagnosis, coordinated at corporate level.

Over the course of 2016, the following incidents took place in terms of process safety:

	2016	
Incidents in terms of process safety (By business)	Tier 1	Tier 2
Exploration and Production	2	1
Refining	1	3
Petrochemicals	1	5
Commercial	0	2
Total	*4*	*11*

Security personnel and human rights

Security employees training in LATAM

36%
HUMAN RIGHTS TRAINING

At Cepsa, we spare no efforts in ensuring that all in-house personnel at business units have received human rights training. In Spain, this training is mandatory for 100% of our security staff and includes a minimum of 20 hours training.

In Latin America, the only companies at which we have private, in-house security personnel, training is outsourced to a security firm that offers specialist training on human rights policy and procedures and their impact on security.

Furthermore, all current security contracts include a human rights escape clause, any breach of which serves as grounds for immediate termination.

CUSTOMER HEALTH AND SAFETY

SCAN HERE FOR MORE INFORMATION ON SAFETY

The Product Stewardship division handles the health and safety impacts of our products to ensure our customers, employees and the environment are all protected, both during the production and storage phases, via:

- Assessment of physicochemical, toxicological or ecotoxicological hazards and their communication.
- Assessment of risks associated with new substances or new applications of existing substances.
- Compliance with the applicable regulations.

We promote the Responsible Care programme, a voluntary initiative among chemical companies that seeks to ensure that affiliated companies make continuous improvements in terms of safety, health protection and the environment, in line with Sustainable Development principles.

In this regard, at Cepsa, we perform a self-assessment each year at the Environmental Safety, Health and Safety at Work; Process Safety and Emergency Response; Distribution; Product Stewardship; and Communication divisions, in order to identify progress made and define new lines of work.

Furthermore, work continues on perfecting the technical support offered to our customers on safety matters related to our products via the Service Now (SNOW) communication channel. Using this tool, our goal is to improve response times and the traceability of all queries by means of statistical analysis to foresee queries and develop solutions.

Furthermore, we are taking the measures required to ensure compliance with REACH, the EU regulation on chemical substances. In this regard, Cepsa has played an essential role in the improvement of its methodology, as a member of CONCAWE and CEFIC. We have adapted the labelling criteria of our products to the GHS System and to Regulation (EC) No. 1272/2008 (CLP Regulation), which has made it possible for us to offer our customers high-quality information and improve safety in the use of our products.

ENVIRONMENT

€61M
IN ACCUMULATED INVESTMENTS DURING THE PERIOD 2012-2016

-11.7%
WATER CONSUMPTION

14.2%
CONSUMPTION OF RENEWABLE ELCTRICITY

NEW GUIDE FOR **BIODIVERSITY ACTION PLANS**

RATING "A"
CDP 2016, CLIMATE CHANGE

-2% (REFINING)
-14% (PETROCHEMICALS)
GHG EMISSIONS
(AScopes 1 and 2)

CERTIFICATION **BREEAM** CEPSA TOWER

At Cepsa, we accept that, given the nature of our activities across the oil and gas value chain, we are responsible for the environment in which we operate. As a result, we analyze the implications that this has on the development of our processes, guided by one of our values: Sustainability.

We are dedicated to the efficiency and optimization of our activities with a view to minimizing our environmental impact, which allows us to make both our development and environmental protection compatible.

Our environmental performance in 2016 can be divided into 6 blocks, corresponding to the most relevant environmental aspects in the development of our activities:

ENVIRONMENTAL MANAGEMENT

WATER MANAGEMENT

CLIMATE CHANGE

CIRCULAR ECONOMY

NON-GHG EMISSIONS

PROTECTION OF ECO-SYSTEMS

ENVIRONMENTAL MANAGEMENT

We have developed an environmental strategy with objectives that cover both the legal requirements in force and all significant environmental aspects. Our commitment focuses on achieving and demonstrating a solid environmental performance by controlling the impact of our activities, products and services on the environment. To this end, we include structured, defined and audited management pursuant to ISO 14001 in our Management System.

At Cepsa, we are working to adapt this certification to the update to the UNE-EN ISO 14001:2015 standard, revising environmental aspects throughout our value chain, in addition to environmental impacts, opportunities and associated risks. The foregoing is pursued by applying a life-cycle approach, from the acquisition of raw materials or its generation using natural resources, through to its final disposal.

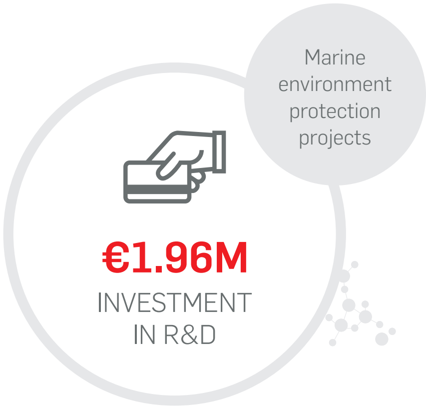
We consider the following business lines to be a priority and necessary for the Protection of the Environment and accomplishment of our values:

- We develop, maintain and ensure compliance with procedures that regulate environmental undertakings in such a way that duties and responsibilities throughout the organization are clearly defined.
- We develop and maintain emergency procedures, providing professionals with instructions to respond quickly and effectively to environmental incidents that may occur, performing drills and practical exercises and adopting measures to improve actions.
- We inform everybody within the organization, both in-house staff and service staff and other interested parties of Cepsa's Environmental Management Approach and Strategy.
- We promote environmental innovation in order to make progress on our pursuit of excellence.
- We periodically assess the environmental management system and its compliance within the framework of continuous improvement.
- We promote transparency as part of all our activities before society, stakeholders, customers and employees.

In anticipation of the entry into force of environmental risk regulations, we have performed an Environmental Risk Analysis to establish the Financial Guarantees at all affected facilities, 35 Spanish production centres in total. To this end, we have followed the criteria established in Royal Decree 183/2015 and AENOR UNE 150,008:2008.

Environmental investment and expenditure

In 2016, our gross environmental assets and their corresponding amortization came to €604 million and €377 million, respectively, with investments over the course of the year coming to around €5 million.



Environmental investment and expenditure (millions of euros)	2016
Environmental investment	5.3
Environmental expenditure[20]	62.5

[20] Includes operating environmental expenses and environmental service expenses.

Given its nature, one of the most significant investments in 2016 corresponds to the development of an Integrated Environmental Data Reporting System, with a view to implementing it at the different production centres.

On the other hand, R&D investments in Marine Environment Protection have also been noteworthy, coming to a total of €1.96 million.

Over the course of 2016, Cepsa has not needed to turn to the market to purchase CO_2 emission allowances to satisfy its obligations.

CLIMATE CHANGE

Our activities generate GHG emissions that we measure, seek to reduce and report on publicly. To this end, we have rolled out optimization plans at the Refinery and Petrochemicals Plants to meet CO_2 reduction objectives prior to 2020. According to these plans, energy efficiency measures to be implemented from 2015 onwards must result in a reduction of 639,422 t CO_2 for the Refining Unit and 204,264 t CO_2 for the Petrochemicals Unit, accumulated through to 2020.

The most noteworthy aspects of our Carbon Strategy in 2016 are as follows:

- The promotion and defence of energy regulations at national and international forums oriented towards a global agreement in order to uphold the 3 energy policy principles: supply security, price viability and competitiveness.
- Defence of a Global Energy Policy in line with the Paris Agreement with a view to Cepsa establishing KPIs to reduce the intensity of emissions.
- Improved reporting and communication of our Climate Change Management and our emissions under ISO 14064.

It should be noted that most of our Energy Management Systems are certified under ISO 50001 on energy efficiency.

In 2016, we have established a sustainability indicator, developed as tCO_2/kUEDC , encompassing the Gibraltar-San Roque and La Rábida refineries and the associated cogeneration facilities. This indicator allows us to assess the intensity of CO_2 emissions and assess the effectiveness of our energy efficiency improvement actions. The target value of the tCO_2/kUEDC ratio is 1,060 for refining, having recorded a value of 1,054 in 2016.

In the other facilities there are energy efficiency targets for both thermal and electrical energy in our commercial area as well as different plans for biodiversity protection and the rationalization of raw materials consumption in all our processes.

Greenhouse gas emissions

At Cepsa, the scope of our[22] GHG emission reporting (CO_2, CH_4 and N_2O) is both national and international and in equivalent CO_2 . The organization carbon footprint certification under ISO 14064 has the same GHG scope on a national and operational control level.

On this point, we report scope 1 emissions (direct combustion and processes) and scope 2 emissions (derived from acquired electricity); these two scopes are both certified under ISO 14064:1.

We also report scope 3 emissions (supply chain emissions, downstream and upstream waters at our facilities), divided into 15 categories under the GHG Protocol. Since 2015, seven of these categories have been certified under ISO 14064:1 and in 2016, we certified a further 2 categories.

Greenhouse gas emissions. Scopes 1 and 2 (Thousands of tonnes of CO_2 equivalent)

Scope 1 *Scope 2*

Scope 1 emissions have dropped by 2.5% due to a range of factors[23]. On the one hand, the divestment of the petrochemical plants in Guadarranque and Montreal, which accounted for less than 5% in 2015 and the drop in emissions at the Exploration and Production unit due to a decrease in production. This trend has also been reflected in scope 2.

When recalculating 2015 figures for the same facilities reported on in 2016 for the purposes of comparison, emissions are as follows, with a slight reduction of around 1%.

Greenhouse gas emissions. Scopes 1 and 2 (Thousands of tonnes of CO_2 equivalent)

Scope 1 *Scope 2*

[21] The denominator kEDC is the equivalent distillation capacity and it is a measurement of refining capacity.

[22] This report uses international methodologies such as ISO 14064, DEFRA database conversion factors, national greenhouse gas emissions inventory, GHG protocol methods, analytical calculations of emission factors at facilities and global warming potentials set out in the latest IPCC AR5 report (5th report 2014).

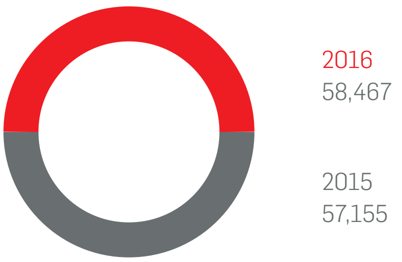
[23] It should be clarified that scopes 1 and 2 exclude the emissions from the Genthin and Asesa plants as they are classified as "Investment" facilities (50% control) and reported as a scope 3 category.

In 2016, the scope 3 calculation includes emissions from goods, fuels and purchased energy, upstream transport of our raw materials, use of end products (applicable to Spain and Portugal), employee travel, waste management (including national and international scope data), franchises and investments. In 2015, we reported a lower figure for this scope, although in 2016 we have recalculated these emissions with the same number of categories under ISO 14064:1, with a view to ensuring that data for both years can be compared.

In total, 90% of these scope 3 emissions can be attributed to the use of our sold products, having considered fuel products sold and reported on nationally. With respect to 2016, there has been a slight increase, due to the higher sales volume and an improvement and simplification in the method for calculating sales.

Below, a breakdown of scope 1 and 2 emissions by financial interest of our facilities can be consulted, on the understanding that they are under operational control.

Greenhouse gas emissions. Scope 3 (Thousands of tonnes of CO_2 equivalent)



Atmospheric emissions. Scopes 1 and 2 (Thousands of tonnes of CO_2 equivalent)

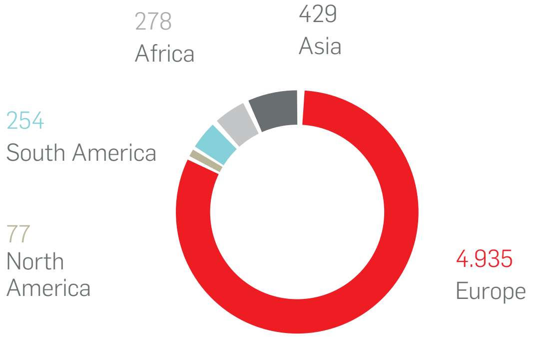
	2016	2015	2014
Fully owned[24]	4,582	4,767	4,815
% financial interest[25]	2,064	2,113	1,966
Total	*6,646*	*6,880*	*6,781*

[24] Includes wholly owned companies.
[25] Includes companies and facilities in which a % financial interest is held.

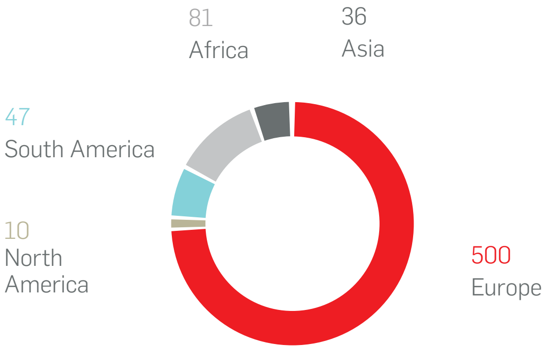
GHG emissions by business units. (Thousands of tonnes of CO_2 equivalent)

	2016		2015		2014	
	Scope 1	Scope 2	Scope 1	Scope 2	Scope 1	Scope 2
Refining	3,309	415	3,373	389	3,415	395
Petrochemicals	680	132	750	222	792	303
CGE	216	0	218	2	245	3
GEPESA	948	0	904	10	940	11
EP	807	104	866	84	561	78
Commercial	13	22	12	48	6	32
Total	*5,973*	*673*	*6,123*	*755*	*5,959*	*822*
Total scopes 1 + 2	*6,646*		*6,878*		*6,781*	

Greenhouse gas emissions by geocraphical area. Scope 1. (Thousands of tonnes of CO_2 equivalent)



Greenhouse gas emissions by geocraphical area. Scope 2. (Thousands of tonnes of CO_2 equivalent)



Intensity of emissions by business units

At Cepsa, we calculate the ratio of our total emissions (scope 1+scope 2) with respect to operations and to adjusted net attributable profit (CLEAN CCS NIAT) to create an intensity figure for the entire business.

Greenhouse gas emissions. Scope 1 and 2

	2016	2015	2014
Exploration and Production (tonnes of equivalent CO_2/tonnes Oil&Gas)	0.203	0.162	0.110
Refining[26] (tonnes of equivalent CO_2/tonnes crude oil processed)	0.224	0.216	0.230
Petrochemicals[27] (tonnes of equivalent CO_2/tonnes production)	0.186	0.257	0.286
Total emissions (tonnes equivalent CO_2/Clean CCS NIAT, €)	*0.012*	*0.012*	*0.015*

At the Refining and Petrochemicals units, in order to adequately assess the trend, the indicator for 2015 must be recalculated applying the same scope as in 2016 during which, as mentioned above, we experienced significant divestments that have had an impact on emissions. For that reason, there has been a reduction in the indicator, which serves as a testament to the operational improvements made.

Greenhouse gas emissions. Scope 1 and 2

	2016	2015
Refining[26] (tonnes equivalent CO_2/tonnes crude oil processed)	0.224	0.229
Petrochemicals[27] (tonnes equivalent CO_2/tonnes production)	0.186	0.216

[26] Scope 1+2 emissions for the refining ratio include the cogeneration emissions associated with the refineries (in 2016 cogeneration at the Guadarranque plant may be associated with refining due to the divestment of the PET chemical line).

[27] Scope 1+2 emissions for the petrochemicals ratio includes the cogeneration emissions associated with the petrochemical plants.

Climate change risks and opportunities

Our energy and petrochemicals businesses are highly conditioned by controls over GHG emissions on both a European and international level, as well as the impact on the climate from the emissions from our exploration and production activities. The management of their impact is regulated through our Carbon Strategy.

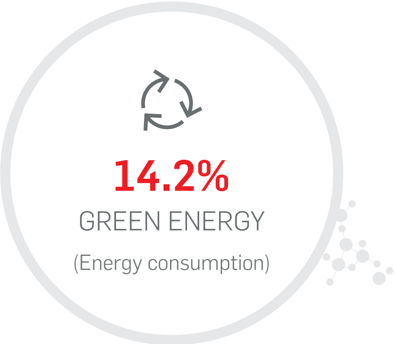
In this regard, in 2016, we obtained an A rating in the Carbon Disclosure Project (CDP) survey, which can be consulted on the initiative's website.

RATING "A"

CDP 2016 CLIMATE CHANGE

SCAN HERE FOR MORE INFORMATION ON CLIMATE CHANGE

Energy consumption and efficiency



In 2016, there was a notable reduction in direct and indirect energy consumption, attributable in large part to the divestment in the Guadarranque and Montreal chemical plants. On the other hand, the inclusion of a new field in Abu Dhabi has resulted in an increase in energy consumption by Exploration and Production (E&P), which offsets the stagnation of others.

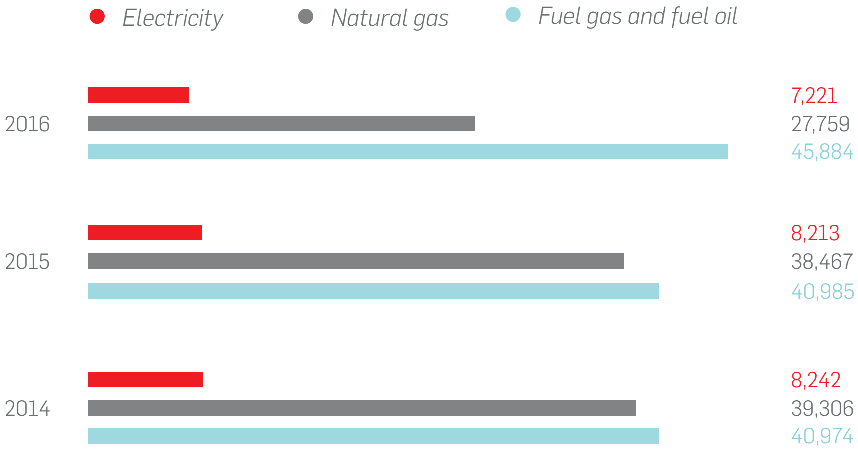
Direct and indirect energy consumption (Thousands of GJ[28])

	2016	2015	2014
Fuel gas and fuel oil	45,884	40,985	40,974
Natural gas	27,759	38,467	39,306
Others (diesel, propane, etc.)	3,131	3,301	3,692
Direct energy total	*76,774*	*82,753*	*83,972*
Electricity	7,221	8,213	8,242
Indirect energy total	*7,221*	*8,213*	*8,242*
Total energy consumption	*83,995*	*90,966*	*92,214*

[28] The fuel data is presented in GJ by converting fuel mass and volume flows into energy units. To do so conversion factors originating from in-house analyses or from national greenhouse gas emission inventories are used.

Furthermore, the energy efficiency measures implemented at the Refining and Petrochemicals units have also contributed to the reduction in energy consumption per unit of manufactured product and, therefore, tonnes of equivalent CO_2.

Consumption of direct and indirect energy (Thousands of GJ)



On the other hand, external energy consumption is calculated based on greenhouse gas emissions as scope 3 category 3. The equivalent CO_2 figure is used to calculate energy consumption referenced to natural gas[29] for each of the categories. The categories for which calculations have been completed include the following:

External energy consumption by category. (Thousands of GJ of natural gas)

	Category	2016
Production staff	Acquisition of goods and services	77,477
	Activities relating to fuel and energy	7,125
	Waste generated	96
Consumer	Transport and distribution of raw materials	13,565
	Use of sold products	942,337
	Franchises	569
	Investments[30]	810

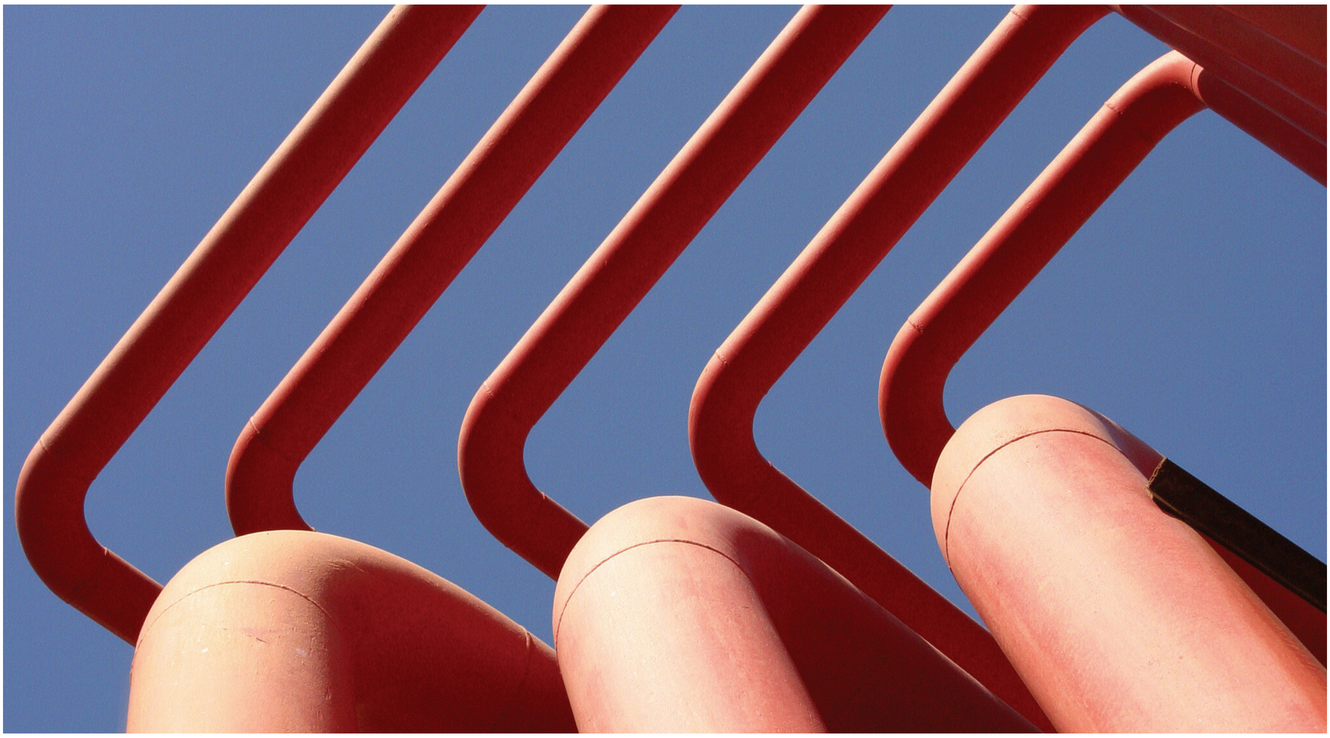
[29] The value of natural gas emissions indicated in the latest national greenhouse gas emissions inventories: http://www.mapama.gob.es/es/cambio-climatico/temas/comercio-de-derechos-de-emision/nir_2017_abril_anexo7_tcm7-456527.pdf

[30] Those domestic or foreign companies over which we do not have 100% financial control are included.

At Cepsa, we develop energy efficiency actions at our refineries and chemical plants that have resulted in an annual reduction of 363 TJ in natural gas consumption, among other aspects, mainly attributable to the decrease in the consumption of consumption fuels and steam.

Actions identified include the following:

- Switch to Fuel Gas in refining boilers, as this fuel has a lower intensity than coal and therefore there are fewer emissions per unit of energy.
- Increase in the amount of oxygen at the refinery FCC unit, increasing combustion efficiency and in turn reducing fuel consumption.
- Improvements to heat exchangers, in this way optimizing the energy yield of currents.
- Preflash in the crude oil unit, increasing the separation efficiency of the fractionating column, reducing the energy consumption of the column in which components are initially separated from crude oil on arrival at the refinery.



Direct energy efficiency

	2016	2015	2014
Refining (GJ/t processed)	2.78	2.61	2.68
Petrochemicals (GJ/ t produced)	1.88	3.74	3.73
E&P (GJ/t oil and gas produced)	1.27	1.13	1.16

We analyze the energy efficiency ratio as the most significant indicator of the yield of our operations in terms of energy consumption. This indicator links the evolution of energy consumption to the volume of activities at each of our business units.

In Refining, the energy efficiency ratio increased slightly. We have included consumption of the associated cogeneration, considering both the steam and electricity generated. Meanwhile, by only considering the crude oil processed, we lose sight of the optimization of the refinery's operations, with potential energy efficiency improvements at the Refining plants masked, for example, by the shut-down and end-of-cycle catalysts.

In Petrochemicals, there is a significant reduction in the ratio, also influenced by the divestment at the aforementioned plants.

In Exploration and Production, the ratio figure does not relate to energy efficiency due to the disparity in its activities (seismic, drilling, production) with different typical consumption levels. Although, energy consumption per production unit increased slightly in 2016. This increase is due to the lower extraction of crude oil and gas in the year which tends to lead to an increase in energy intensity as it is not in a stable production period.

NON-GHG EMISSIONS

Our activities include processes that can potentially pollute the atmosphere, which increases the importance of preventing and controlling our air emissions to avoid or minimize the damaging effects on the environment and human health.

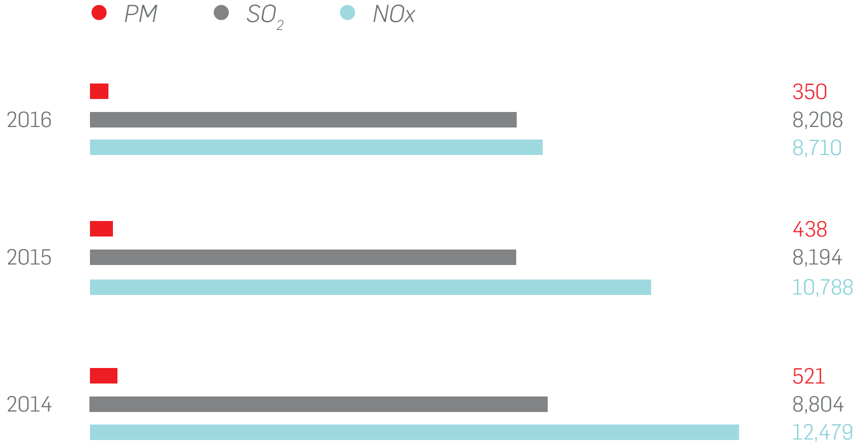
Our efforts to reduce emissions into the atmosphere are reflected in the downward trend of emissions indicators per unit of product, which continue to decrease both in Refining and in Petrochemicals.

SO_2 emissions	2016	2015	2014
Refining (kg/t processed)	0.321	0.352	0.364
Petrochemicals (kg/ t produced)	0.004	0.006	0.007
E&P (kg/t oil and gas produced)	0.236	0.069	0.102

NOx emissions	2016	2015	2014
Refining (kg/t processed)	0.151	0.154	0.160
Petrochemicals (kg/ t produced)	0.120	0.301	0.305
E&P (kg/t oil and gas produced)	1.061	1.011	1.212

PM emissions	2016	2015	2014
Refining (kg/t processed)	0.011	0.015	0.017
Petrochemicals (kg/ t produced)	0.003	0.006	0.011
E&P (kg/t oil and gas produced)	0.015	0.014	0.015

Non-GHG emissions (tonnes)[31]



[31] The emissions report may be prepared based on data that are measured, calculated or estimated. Emissions factors from the EPA, Concawe and prepared in-house are used in this respect.

Taking into account absolute values, there is a clear decrease in emissions both in nitrogen oxides (NOX) and in particles (PM). The increase in sulphur dioxide emissions is due mainly to the inclusion of the new field in Abu Dhabi.

At Cepsa, we are working to decrease emissions arising from our operations and also to optimize the formulation of our fuels, which would enable us to reduce their impact on air quality. In this way, we comply with the most recent European regulations on benzene, lead and sulphur content in fuels (EN 228 for gasoline, EN 590 for diesel and DEF STAN 91-901 for aviation kerosene).

Similarly, our marine fuels comply with the sulphur limits set in the MARPOL 73/78 International Convention, and the new European Directive, on sulphur content in liquid fuels, approved in 2016.

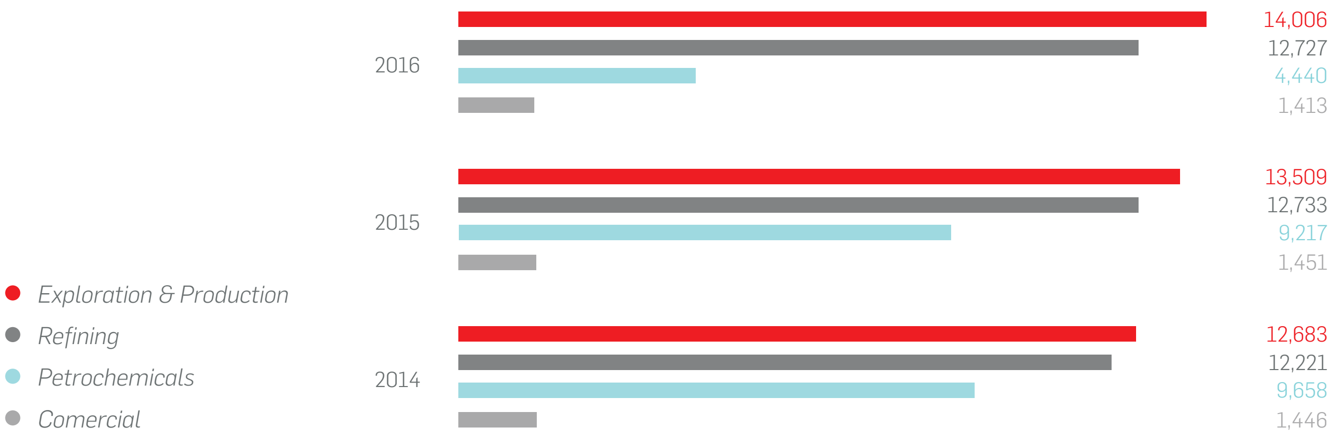
WATER MANAGEMENT

At Cepsa, we are aware of the use of high volumes of water in our activities and processes. We therefore manage it sustainably, consistent with our values and, as stated in our water positioning and strategy, we try to:

- Consume as little as possible.
- Use it efficiently.
- Maximize its re-use.
- Minimize spills resulting from our operations.
- Improve the quality of the spill.

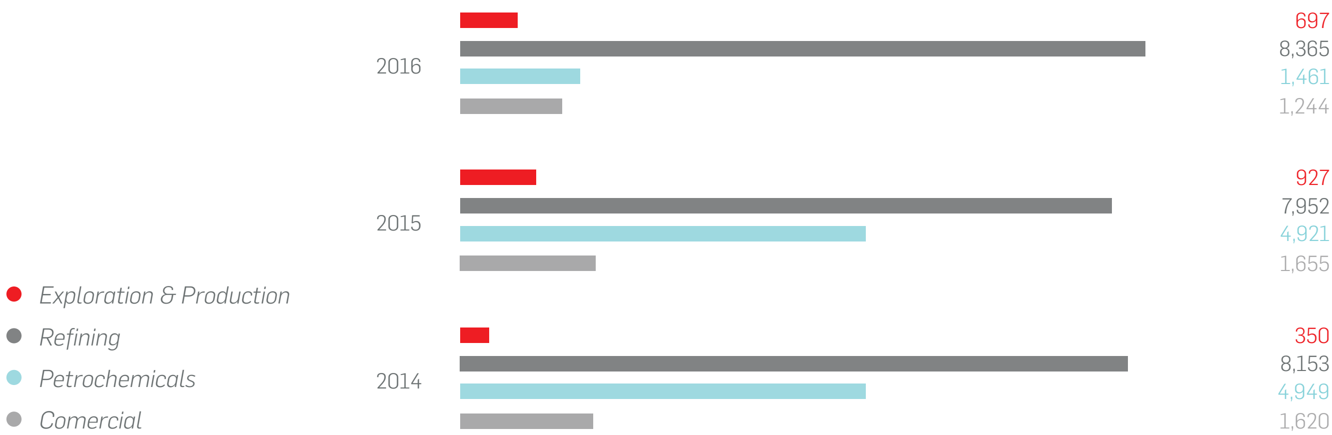
Regarding the spills deriving from the industrial activity of the refineries and chemical plants, all effluents from the production processes converge at the Waste Water Treatment Plants (WWTP) where they go through physical, chemical and biological processing, in order to not only ensure that the quality parameters set by existing environmental authorisations are strictly adhered to, but also the highest possible quality of the discharge.

Volume of water consumed (Thousands of cubic meters)



The reduction of the total amount of water consumed and discharged in 2016 versus the previous year is mainly due to a reduction in Petrochemicals due to the divestment at two plants.

Volume of wastewater (Thousands of cubic meters)



The quality of the discharge from our refineries has improved significantly across all parameters since analysis and controls were first conducted, more than a decade ago. The same applies at our petrochemical plants, although in 2016 there was an increase in the value of the oil and greases parameter due to lower purification performance of WWTP at the Deten Chemical plant, located in Brazil, due to the interference in the treatment of some products used in emergency situations.

Main control parameters in discharges (Tonnes)

		2016	2015	2016
Refining	Total organic carbon	107	132[32]	210
	Suspended solids	167	201	175
	Oil and grease	27	28	34
Petrochemicals	Total organic carbon	333	856	1,487
	Suspended solids	58	329	349
	Oil and grease	4	2[32]	3[32]

[32] Data modified compared with previous reports due to more precise information being available. In all cases these updated data are lower than those from the preceding year.

Source of water consumed in 2016 (Thousands of cubic metres)

	Municipal grid	Underground water	Surface water	Total
Exploration and Production	72	13,754	179	14,006
Refining	12,727	0	0	12,727
Petrochemicals	4,398	31	12	4,440
Commercial	973	440	0	1,413
Total	*18,170*	*14,225*	*191*	*32,586*

CIRCULAR ECONOMY

One of our environmental objectives is to minimize consumption of materials and waste production so that we continue to reduce the impact of our activities across the entire value chain.

Consumption of raw materials

1.34%
RENEWABLE SOURCES
Raw materials refining

Throughout 2016, our consumption of raw materials remained practically the same as the previous year, with a slight decrease of 1.1%. The notable reduction in the amount of petrochemical raw materials was due to the divestment in the Guadarranque and Montreal chemical plants.

We report the raw materials that make up more than 95% of the end product by level of importance. In refining, we report on the amount of crude oil and other blending materials in production, including renewable raw materials, representing 1.34% of total refining raw materials.

Consumption of raw materials (Thousands of tonnes)

	2016	2015	2014
Refining	22,121	22,016	21,812
Petrochemicals	3,855	4,295	4,201
Total	*25,977*	*26,311*	*26,013*

Meanwhile, we also measure recycled hydrocarbons originating from the management of MARPOL waste at the refining facilities, which have the necessary infrastructure and permits to be treated. In 2016, 70,337 tonnes of this type of waste were received and managed, with recycled oil in the amount of 8,992 tonnes for subsequent processing in the refineries, representing 13% of the managed amount[33] .

Waste management

As set out in our strategy and management system, at Cepsa we are constantly reviewing our procedures and activities to minimize waste produced, reusing resources in our processes wherever possible and separating the waste we produce at source.

Amount of managed waste[34] (Tonnes)

	2016	2015	2014
Hazardous waste	37,813	49,790	53,397
Non-hazardous waste	23,116	26,200	26,212
Total	*60,929*	*75,989*	*79,609*

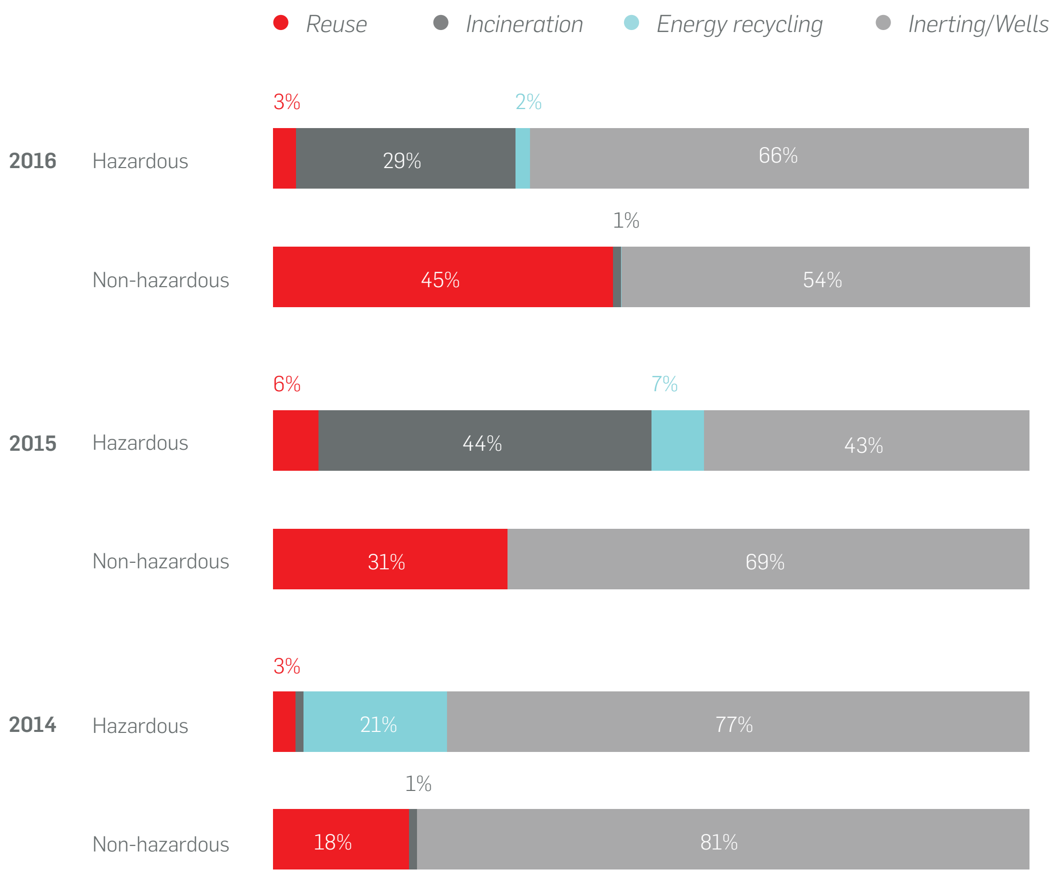
[33] The Rábida refinery does not have recycled hydrocarbon data and it is therefore excluded from the total.
[34] The data relating to 2014 and 2015 have changed with respect to those previously published due to the review of some criteria and their recalculation.

The trend shows a decrease in waste, both hazardous and non-hazardous, although it must be noted that 2016 was influenced by lower activity in the Exploration and Production Unit.

Hazardous waste and Non-hazardous waste

In the same way as in the previous case, we have shown the amounts of non-hazardous waste treated in accordance with the various destinations:

Amount of hazardous waste and non-hazardous waste by type of treatment (Percentage)



Drilling waste

The Cepsa Exploration and Production Unit generates, among others, drilling waste or sludge. At Cepsa, we use inerting, thermal desorption or incineration process to treat it, depending on whether it is water based or non-water based.

Amount of drilling waste per type
(Tonnes)

	Handling	2016
Water-based waste	Inerting	6,169.10
Non-water based waste	Inerting	25,700,224
	Thermal desorption	10,755
	Incineration	2,640.96

PROTECTION OF ECOSYSTEMS AND BIODIVERSITY

Our activity depends on natural resources; it therefore has a direct or indirect impact on the environment and on biodiversity. At Cepsa, we assess the impact and the environmental risks associated with new projects and with changes to existing activities, whether they are significant or not, taking into account the full life cycle of the facilities and projects. This assessment is of particular importance when the potential impact may occur in particularly sensitive areas or which have a specific protection regime.

Throughout 2016, the Internal Guide for Defining and Implementation of Biodiversity Action Plans (BAP) was drafted. In this guide, complementary to the Biodiversity Standards, general guidelines are presented applicable both in environments where Cepsa operates and at other locations where the Company has no activity. In 2016, two BAPs were implemented; one at the Palos Site and another at the San Roque Site. These plans enter into force in 2017.

FIND MORE INFORMATION ON BIODIVERSITY PROJECTS HERE

Protection of the marine environment

Our activity also implies a significant flow of products in loading and unloading at refinery marine terminals, maritime facilities or Exploration and Production activities, and in the fuel supply manoeuvres at ports and anchorages.

Throughout 2016, we have been carrying out different actions intended to protect the marine environment, aligned with our pollution prevention strategy, early detection and availability of the best control techniques and clean-up operations of accidental spillage.

Specifically, and beyond the simulations at each plant, this year we conducted a significant training campaign and simulations at the fuel posts for fishing boats. Despite the small-scale nature of these facilities, there is a potential risk of marine pollution due to the large number of them and the high frequency of operations.

Furthermore, from the beginning of 2016, Cepsa has been working with State Ports to draft a Best Practices Guide for Handling Bulk Liquid at Ports. A working group was set up for this which worked throughout this year on the scope and content of the guide, in order to lay the foundations of the existing and recommended best practices, at ports to prevent and fight against marine pollution.

Meanwhile, we have continued with the R+D+i projects in progress, which aim to obtain cutting-edge technology for early detection and the effective fight against spills.

- NETCON Project: Early pollutant detection network using fiber optic at Cepsa's maritime facilities.
- SAVEMAR Project: Autonomous navigation for rapid deployment of spill containment barriers in the vicinity of our maritime facilities.

Soil protection

Soil protection at our production facilities is based on the implementation of preventive actions to avoid leaks and spills in unprepared areas. In this respect, we work to have in place early warning mechanisms and internal control procedures, to detect any such leakage as soon as possible, in order to take appropriate actions to prevent contamination.

Preventive actions are carried out from the design and construction stage of new facilities or changes made to existing facilities. We also have inspection and maintenance programmes, as well as plans and campaigns for monitoring soil and groundwater quality using the piezometric networks installed for this purpose.

CUSTOMER SERVICE

7.9
AVERAGE SCORE IN CUSTOMER SATISFACTION IN 2016

LEADER IN THE JET FUEL **BUSINESS** IN SPAIN

FIRST OIL COMPANY TO INCORPORATE **NEW MOBILE PAYMENT SYSTEMS**

LIFE CYCLE ANALYSIS CERTIFICATION OF LAB

CONTINUOUS IMPROVEMENT IN OUR SERVICES

FIRST OIL COMPANY TO INCORPORATE NEW MOBILE PAYMENT SYSTEMS

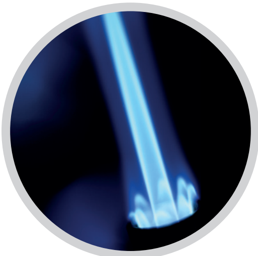
Cepsa Pay, Paypal and Samsung PayPal, as a payment method at our service stations.

CONSOLIDATION OF THE CEPSA/CARREFOUR MODEL

Reaching 238 stores across the Cepsa Network of service stations.

MORE THAN 5 MILLION PRIZES DISTRIBUTED AMONG OUR RESIDENTIAL CUSTOMERS

With the purchase of fuel, heating oil, bottled gas and lubricants.



100% ONLINE PURCHASE OF OUR NATURAL GAS SERVICE

Via our website.

WE ARE EXPANDING OUR BOTTLED GAS OFFER TO THE CANARY ISLANDS, CATALONIA, THE BASQUE COUNTRY AND LA RIOJA

Via our more efficient and convenient, lightweight bottle.

LEADER IN SALES OF JET FUEL

Supplying the main Spanish and international airlines.

WE HAVE BROUGHT THE NEW RANGE OF OPTIMA FUELS TO MARKET

Increasing efficiency, engine cleanliness and reducing consumption, thanks to its exclusive formulation.

COMMERCIAL ALLIANCES WITH IBERIA, AIR EUROPA AND ORANGE

In order to provide exclusive benefits to our customers.

LEADERSHIP IN THE SECTOR

- GLOBAL LEADERS IN THE MANUFACTURE OF LAB
  Raw material for the production of biodegradable detergents.
- LEADERS IN THE SUPPLY OF BITUMEN IN THE NORTH OF AFRICA
  With sales exceeding 500,000 tonnes in 2016.
- SECOND LARGEST PRODUCER OF PHENOL IN THE WORLD
  Following start-up of Shanghai plant.
- LEADERS IN THE SUPPLY OF FUEL
  At Spanish airports .
- LEADER IN SPAIN IN MARINE LUBRICANTS
  With total production of 17,000 tonnes.

COMMUNICATION WITH OUR CUSTOMERS

Two-way communication with our customers is a fundamental pillar in developing our business. Through our traditional lines of communication (telephone, fax, email or postal correspondence) and our website, we provide a customized service in order to understand and meet the needs and expectations of our customers.

SCAN HERE FOR MORE INFORMATION ON PRODUCTS AND MARKETS SERVED BY CEPSA

SERVICES VOCATION

ONE OF THE PILLARS OF OUR BUSINESS BASED ON OUR CLOSENESS WITH CUSTOMERS AND FLEXIBILITY

With regards to the safety of our customers, we have launched the project Service Now (SNOW), which allows us to streamline and systematize all enquiries received, while improving services to our customers.

In 2016, we continued to develop the Customer Experience project, which enables us to obtain information about our customers' needs and demands in a homogeneous way. Its main lines of action are:

- Updating the definition of the business processes and continuous improvement.
- Adapting the tools and support processes to our customers' needs.
- Promoting customer participation.

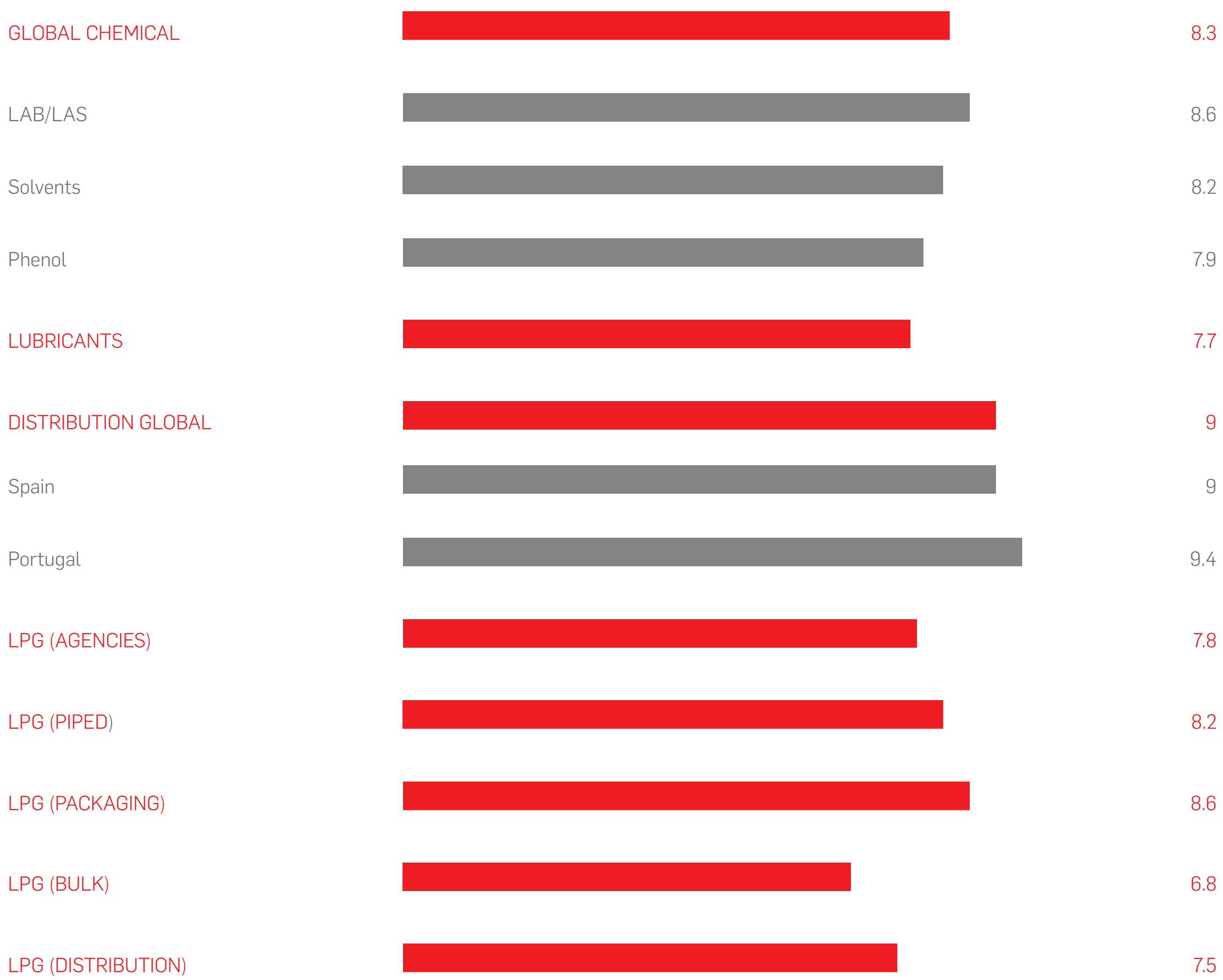
In 2017, we will launch the project, which will allow us to establish improvement actions to offer products and services of excellent quality.

QUALITY AND SATISFACTION

At Cepsa, we want to know the opinion and needs of our customers in order to adapt to the market and improve the offer and the quality of our products and services.

To this end, we carry out periodic satisfaction surveys. They are conducted biannually and the methodology is tailored to the characteristics both of the products and services and of the customers to whom they are addressed.

In 2016, we carried out customer satisfaction surveys with customers from the distribution, lubricants and petrochemicals businesses. The general level of satisfaction remained above 6.5 out of a total 10 points, indicating a high level of satisfaction:



COMMITMENT TO THE SUSTAINABILITY OF OUR PRODUCTS AND SERVICES

At Cepsa, sustainability is one of the values that guides the performance of our activities. This way of working is also translated to the products and services that we offer to our customers.

In 2016, we launched various initiatives to provide our products and services with added value, including:

- We have developed binders that enable a more environmentally sustainable manufacture of asphalt mixes.
- Cepsa is the founder and a member of SIGAUS, a not-for-profit entity which guarantees the collection and correct treatment of industrial oil used in Spain.
- In 2016, we obtained the Life Cycle Analysis certification (LCA) for LAB, a raw material used to manufacture biodegradable detergents.
- The electricity sold by Cepsa Gas and Power in 2016 issued 0 tonnes of CO2 per kWh, obtaining the 'A' label for these emissions, due to the acquisition of Green Certificates in the market. It also generated 0 milligrams of radioactive waste per kWh, obtaining the 'A' label for this type of waste.
- Our Optima fuel range which, due to its new improved formula, cleans and protects engines, improves handling, reduces consumption and pollution.

RESPONSIBLE SUPPLY CHAIN

WE WORK WITH CLOSE TO
5,000
SUPPLIERS

€13,533 M
IN PAYMENTS TO SUPPLIERS

71.74%
AVERAGE SCORE IN THE SUPPLIER SATISFACTION SURVEYS

TRANSFORMATION DRIVING IMPROVEMENT

During 2016, we consolidated the transformation of the purchasing area in order to improve its positioning as a strategic area within the Company's decision-making process. This transformation process had five essential cornerstones:

STRATEGY

Redefinition of the strategic objectives associated with the purchasing activity to bring them into line with our annual corporate and business targets.

SYSTEMS AND TOOLS

Development and implementation of unique global systems that cover the complete standardized purchasing cycle, simplifying processes and attaining a greater degree of automation, efficiency and traceability.

MANAGEMENT BY CATEGORY

Restructuring and re-scoping via the specialization of purchasing managers, in order to improve efficiency and offer a global perspective.

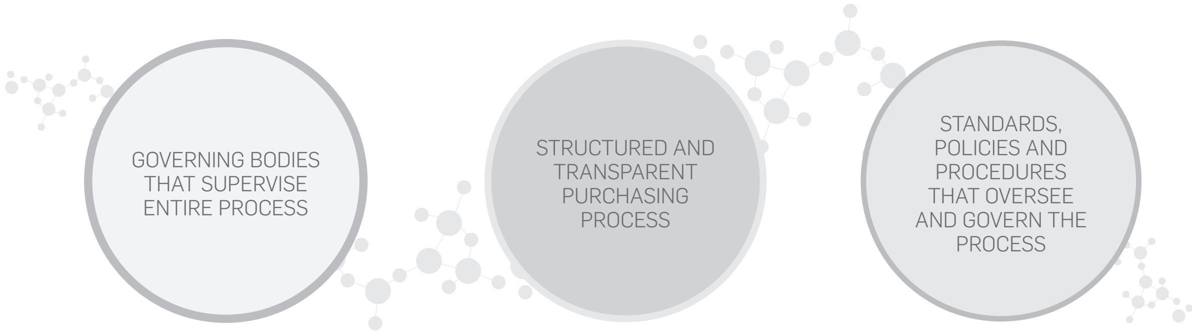
REGULATIONS AND COMPLIANCE

Redefining the principles of the Governance Model for purchasing processes involving the Executive Committee, in order to regulate and adjust those processes throughout the entire Company.

ECOSYSTEM OF RESOURCES

Greater professionalism across the purchasing team, business units and suppliers. Strengthening and development of supplier relationships, creating a relationship network underpinned by continuous improvement. Improved dialogue, communication and visibility with the Business Areas, developing a joint decision-making model focused on achieving alignment with the Company's objectives.

We designed a Governance Model for the purchasing process in order to attain management excellence, based on:



FOR FURTHER INFORMATION REGARDING THE CODE OF ETHICS FOR SUPPLIERS, CLICK HERE

The general principles that must govern the purchasing process, as well as the guidelines to be followed by our professionals involved in the purchasing process, are set out in our Purchasing Code of Conduct. Our suppliers are urged to recognize the need to apply our values and ethical principles.

Cepsa's Code of Ethics and Conduct establishes a conduct framework that must be applied to relationships with suppliers and contractors, including a firm commitment to corporate responsibility and sustainability in the following areas:

ETHICAL BEHAVIOUR

- Meeting legal requirements.
- Transparency.
- Fair competition.
- Informing about unlawful situations and conduct.
- Information protection.
- Fight against corruption.

HUMAN AND LABOUR RIGHTS

- Respect for human rights.
- Compliance with labour laws.
- Respect for people's dignity.
- Eradicating child labour.
- Elimination of forced labour and harassment.
- Promoting equal opportunities and non-discrimination.
- Guaranteeing the right to free association.
- Promoting and ensuring occupational health and safety.

ENVIRONMENT AND QUALITY

- Compliance with environmental laws.
- Establishing environmental policies, preventive and corrective measures.
- Reducing waste, emissions and discharges.
- Conserving natural resources.
- Guaranteeing quality product our services.

This code reflects Cepsa's commitment to the principles of the United Nations Global Compact and it is applicable to all operations in every country in which we operate. In order to ensure compliance with the Code of Ethics for Suppliers, we have a procedure for reporting incidents and irregularities that may be accessed from the supplier portal on our website, where our suppliers may report any behaviour that violates out Code of Ethics during the commercial relationship.

In 2016, we reviewed and standardized the main supply and service contract models. A clause relating to compliance with the Code of Ethics for Suppliers is included in order to require suppliers to apply the corporate responsibility and sustainability standards, applicable first during the registration phase and in the general terms of contract, and subsequently in tenders and in all contracts.

OUR SUPPLY CHAIN

We manage our suppliers on a segmented basis in accordance with risk criteria and the criticality of their products and services in order to structure our supply chain and establish adequate improvement and development actions.

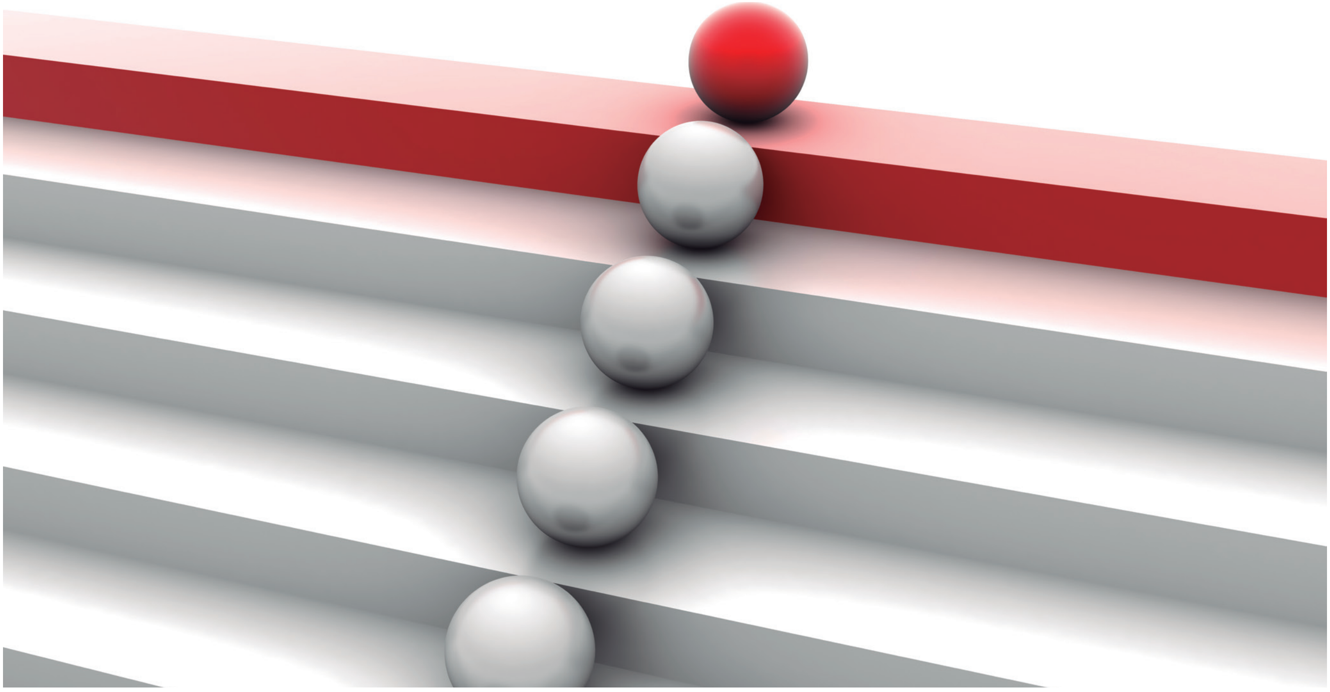
4,979
SUPPLIERS

Segments	Payable to suppliers[35]	% Suppliers	% Expense
Segment I	87	1.75%	50.14%
Segment II	211	4.24%	26.34%
Segment III	333	6.69%	12.71%
Segment IV	4,346	87.32%	10.81%

[35] The reported information refers to purchases made by the Purchasing and Contracting Department, excluding purchases of crude oil and other raw materials.

Companies that wish to establish a commercial relationship with us must participate in our purchasing process. Our purchasing process allows us to consolidate the strengths of our supply chain: traceability, transparency and equal opportunity. Companies that are interested in participating in contracting processes must take into account that contacts must only take place through Cepsa's Purchasing and Contracting Department, respecting our purchasing process procedures set out on our corporate website. That website also provides a list of good practices within the purchasing process that we encourage.

SCAN HERE
FOR MORE
INFORMATION
ON PURCHASING
PROCESS



A large part of our business takes place in Spain and, therefore, we encourage contracting with local suppliers in order to contribute to the development of companies that accompany us in our operations. In 2016, 55% of our suppliers were Spanish, with which we contracted 59% of the expenditure managed by the purchasing area.

	2016	2015	2014
Purchases in Spain[36]	619.37	1,023.82	741.45
% of total purchases (Spain)	58.72%	48.82%	64.96%

[36] The reported information refers to purchases made by the Purchasing and Contracting Department, excluding purchases of crude oil and other raw materials.

One of Cepsa's commitments for 2016 was the development of local contracting in each of the countries in which we are present. To do so we identify them through evaluations of those suppliers that measure the impact of local contracting by the Company and we identify areas that may be managed locally.

As part of our Local Supplier Development Programme, in November 2016 we held a workshop-seminar together with the Caracara Association called 'Strategic Management for Business Improvement' that focused on 44 companies and 55 proprietors in the local area in several sectors in Puerto Gaitán (Colombia). The 115 hours of training was intended to provide attendees with the conceptual and legal tools to better organize their businesses within the framework of sustainable competitiveness and growth. The initiative ended in February 2017 and the process included the implementation of a mentoring phase that will include a diagnostic analysis, the preparation of an action plan and general monitoring leading to recommendations and suggestions for improvement. In 2017 this programme is expected to be rolled out in Peru and Casanare (Colombia).

ASSESSMENT AND MONITORING OF SUPPLIERS

Cepsa drives control and monitoring measures for our main suppliers to ensure they comply with our standards. Our supplier assessment includes matters concerning quality, execution, safety (particularly relevant for contractors working at our facilities), environmental performance and energy efficiency, innovation and ethical behaviour, in addition to compliance with both the law and the requested technical specifications.

We performed 2,586 assessments of 990 suppliers in 2016, covering all specialities, of which 98% relate to segments I, II and III.

We consider it important to perform such assessment on audit suppliers in situ, in order to verify compliance with standards regarding corporate responsibility and ethical behaviour. As part of our purchasing objectives, in 2017 we increased the number of audits performed by preparing an audit plan so that visits would be made to suppliers in all areas of purchasing.

Level of customer satisfaction regarding different aspects of Cepsa

SCAN HERE FOR MORE INFORMATION ON THE PURCHASING GUIDELINES AND GOOD PRACTICES

We perform supplier satisfaction surveys to improve our purchasing process. Surveys were sent to 1,034 suppliers in 2016 (85% of Cepsa's contract volume in September 2016) and we obtained responses from nearly 60% of those surveyed. The average score in the consulted blocks was 71.74, and the average score for Cepsa exceeds the assessment of similar companies in almost all respects.

At Cepsa we encourage strategic alliances with relevant suppliers in order to build long-term collaborative, continuously improving models in which frequent transparent negotiations are the main pillars of action.

We received an award for having the second best business responsibility project, granted by the Spanish Association of Purchasing, Contracting and Supplies (AERCE), for Cepsa's strategic alliance with Roncalli (Juan XXIII Foundation), involving joint initiatives and social action with Special Employment Centres (CEE), which encourage the integration of disabled individuals into the labour market. In 2016, AERCE also presented us with the top AWARD in the category of Transformation in the purchasing area.

SOCIAL WELFARE

* Employees + family members.

RELATIONSHIPS WITH COMMUNITIES

We make efforts for our operations to generate value for the communities surrounding our facilities including, among other things, action to contribute to their sustainable socio-economic development, and to improve lives and well-being. In addition to facilitating interaction with local communities, our management of these actions has a direct repercussion on the perception of the economic, social and environmental value of our activities and, therefore, on the perception by the various stakeholders that Cepsa is a committed company, thereby having a positive effect on the communication of Cepsa values, among other things.

Specifically, 100% of our exploration and production activities have implemented social and environmental impact assessment systems and programmes to allow local community participation in the identification of projects that allow their economic and social progress.

Our operations are also subject to environmental and social licences granted by the relevant authorities and measures audited by third parties to mitigate any negative impacts.

Social risk management

The management of relationships with local communities forms part of our normal business practices. Our risk management model includes an exhaustive process for identifying and managing social risk, both when obtaining necessary licences and permits through environmental and social impact studies, and the analysis of social risks performed with respect to the investment in, and execution of, specific projects.

Communication channels

All of our facilities have communications channels, developed in line with the type of the business concerned and their geographic location, so that local communities can make complaints, claims and suggestions for improvements to our business.

Furthermore, our centres are staffed by teams dedicated to stakeholder relationships, which allows us to manage, analyze and respond to their concerns.

In 2016, we did not receive any complaint or report of any significant negative impact deriving from our operations, from either the authorities or local communities.

We did not carry out any operations in areas with a presence of indigenous communities in 2016 and we did not detect any risks or failure to comply with the rights of those communities.

SOCIAL MEASURES

At Cepsa we understand that in order to reinforce our social commitment, manage our impact in a positive manner and contribute to the strengthening of the Company's sustainability, we must invest in those actions that attend to the needs and priorities of the communities and populations located in areas in which we carry out our business.

Cepsa Foundation

Fundación Cepsa was created in October 2016 and it is a general interest, non-profit entity that channels the social actions implemented by Cepsa and its group of companies. The Foundation's purposes are aligned with Cepsa's Social Action Policy. The Cepsa Foundation is present in Spain, Portugal, Colombia, Peru, Brazil and Canada.

Sphere of action and initiatives

The social investment initiatives implemented by Cepsa are organised into five areas that meet the needs and characteristics of the communities in which Cepsa carries out its operations.

SOCIAL

In which the annual Social Values Awards and the Corporate Volunteer Programme Voluntas are notable, as is our habitual collaboration with Lealtad Foundation, Energy without Borders Foundation, Down Syndrome Foundation, Adecco Foundation and the Spanish Red Cross, among others.

CULTURAL

Which involves initiatives that promote and preserve popular traditions, and artistic and cultural heritage. In addition to the projects carried out, we collaborate on an on-going basis in this care with the Friends of the Prado Museum Foundation, the Naval Museum Foundation and the Princess of Asturias Foundation.

EDUCATIONAL-SCIENTIFIC

We maintain collaboration agreements with several universities through our professorships in order to bring business and universities closer, encourage research, create knowledge and support training that goes beyond academics.

ENVIRONMENTAL

Promoting awareness, conservation and rehabilitation projects for natural heritage. We note the educational program 'Kid gardens and healthy food' in schools in Tenerife or the Life Blue Natura Project, the objective of which is to quantify the carbon deposits in the marine bed habitats and tidal marshes in Andalusia.

SPORTS

Supporting activities intended to encourage community sports through assistance to clubs and tournaments, collaborating with the construction of sports facilities and the restoration of recreational areas, as well as organising sporting events in various disciplines in our areas of influence and in the native communities.

The investment made in each of the described areas of action are indicated below:

Investments in social action 2016
(Euros in each area of action)

	2016
Social	3,135,089
Cultural	750,941
Environmental	491,200
Sports	99,161
Total	*4,476,392*

Collaboration by our employees and their families

We have an International Corporate Volunteer Program 'Voluntas' with the objective of channelling the social solidarity concerns of our professionals, and facilitating their access to certain projects that are aligned with the objectives of the Fundación.

The Program has five areas of focus, which are in line with the aforementioned areas of action:

- Promote employment and education
- Attention to basic needs.
- Support for cultural activities
- Caring for the environment.
- Promotion of sports and health.

These actions are intended for the following groups: The disabled, children and vulnerable adolescents and young people.

Through Voluntas our professionals contribute their time, talent and energy to develop the communities in which we are present. This year 850 volunteers participated: 542 employees and 308 family members.

SOCIAL VALUE
AWARDS

INITIATIVES

One of our most notable initiatives are the Social Value Awards, whose objective is to recognise and encourage social initiatives that encourage inclusion and the welfare of less privileged groups, as well as to promote those solidarity values among our professionals. In 2016 we presented awards to 39 solidarity projects in Spain, Portugal, Colombia and Brazil.

In total, €398,080 were distributed, 18% more than the last program.

Below we indicate the social action initiatives associated with several Sustainable Development Objectives (SDO), which have a direct impact on the improvement of local infrastructure and services:

BRAZIL

The initiatives that we carry out are always very related to the protection and conservation of the environment, and therefore this has a positive impact on the well-being of the local communities. We note the Tamar Project, whose objective is to promote the conservation and rehabilitation of natural heritage and the biodiversity of marine turtle habitats, and environmental education (visitor centres, exhibitions, conferences and community events).

CANADA

We carry out cultural and social initiatives and encourage local sports. The most notable in 2016 is the collaboration with United Way of America with respect to a campaign whose objective consisted of obtaining financing for projects being carried out by organisations that assist the most needy and vulnerable communities.

COLOMBIA

In 2016 we launched a project consisting of training local suppliers in specific areas (business administration, negotiations, legal matters, CSR, HSEQ, finances, etc.) to improve their capacity and employability also outside of the oil industry value chain and decrease their dependence on that industry. A total of 36 local companies have benefited from this training.

At the Caracara field we have developed a food independence project in the Wacoyo indigenous population reservation. Thirty-four communities participated in this project and they planted and strengthened their farms (banana, yucca, squash, sweet potato, corn), which benefited 360 families through a contribution of €193,648.

At the Casanare field one of our initiatives consisted of making advisory and technical services available to area communities to improve agricultural facilities and support production projects, so as to strengthen regional vocations and to identify new activities that may generate family income. This project benefited 478 families and we contributed €170,920.

SPAIN

From our corporate headquarters, we are involved in numerous collaboration efforts with organizations and with municipal authorities in the environment in which we carry out our activities, focusing our efforts on those initiatives that support culture, sports, the environment and social development. Worthy of mention are scholarships for the best academic records, sponsorship of sporting events, cultural visits, as well as the Cepsa professorships, which represent a contribution of €152,700. In the Canary Islands we have collaborated with the Fundación Santa Cruz Sostenible to execute an environmental action plan.

PERU

The initiatives relating to the improvement of agricultural and livestock management and social infrastructure are notable, such as the project carried out at the Los Angeles ranch (local community centre). This project consisted of the repair of institutional premises, the delivery of furniture, sundry equipment and construction materials so that the cultural activities at the village centre may be improved to the benefit of 250 residents.

We also implemented two training centres for agricultural and livestock activities at a property that is accessible to the local community in the areas in which the Company operates (Block 131) in order to promote the sustainable cultivation of cacao and local livestock by promoting practices to improve stocks in the area. The cultivated products and the livestock raised at the centres are donated to the beneficiaries of the projects, who are owners of land in our area of influence. There were approximately 65 families that directly benefited in 2016.

PORTUGAL

We developed a series of social, environmental and cultural initiatives among which we emphasise the Social Value Awards, which received a contribution of €47,798. These awards are focused on projects relating to women who are victims of domestic violence, those suffering from mental illness, support for the family members of Alzheimer patients and support in orientation for refugees through multi-disciplinary cooperative teams.

THAILAND

We carry out social, environmental and cultural initiatives that focus on the improvement of the quality of life in communities. We note the donation of an ambulance for a hospital in the coastal district of Singhanakhon. The ambulance includes a mechanical respirator, a defibrillator and medical devices. This initiative benefited 77 villages and 82,349 residents of this district.

AFFILIATION WITH INITIATIVES

At Cepsa we use nationally and internationally recognised indexes and initiatives as a reference in order to carry out our business within a responsible and sustainable corporate framework. Accordingly, we increase our credibility and transparency with respect to our stakeholders.

We are aware of the social benefits our tax contributions have in the countries and territories where we operate, in recognition that they are a fundamental help to public authorities that assure the basic services for people, families, and society as a whole. In Spain, we adhere to the Code of Best Taxation Practices approved on July 20, 2010 by the Forum for Large Companies established on July 10, 2009 by the State Tax Authority.

We are also committed to the following initiatives and their social principles through our participation in several business and industry associations in the corporate responsibility area.

THE GLOBAL COMPACT Network Spain WE SUPPORT

OIT

RESPONSIBLE CARE El Compromiso de la Industria Química con el Desarrollo Sostenible

OECD BETTER POLICIES FOR BETTER LIVES

EMPRESAS POR UNA SOCIEDAD LIBRE DE VIOLENCIA DE GÉNERO

Fundación Biodiversidad

CDP DRIVING SUSTAINABLE ECONOMIES

CHAPTER 6
Appendices

We would like to know your opinion or suggestions. Furthermore, to obtain any further information regarding our report you may communicate with us at the following address: responsabilidad.corporativa@cepsa.com

Compañía de Petróleos, S.A. Torre Cepsa. Paseo de la Castellana 259A, 28046. Madrid
91 337 60 00 / www.cepsa.com

ABOUT THIS REPORT

POLICIES AND STANDARDS

This Annual and Corporate Responsibility Report has been approved by the Management Committee and reviewed by the Compliance Committee, which directly reports to the Audit, Compliance and Ethics Committee, to ensure that it correctly reflects all relevant aspects of Cepsa.

We have prepared this report in order to meet the reporting requirements of our stakeholders, following the main reporting trends. We have followed the recommendations of several internationally recognised standards such as the International Integrated Reporting Framework (IR) of the IRC (International Integrated Reporting Council) and the Guidelines for Preparing G4 Sustainability Reports issued by the Global Reporting Initiative (GRI).

In accordance with the IR Framework, this report contains relevant and concise information, including financial and non-financial information regarding Cepsa's strategy, performance and corporate governance, among other things.

In 2016, we performed a significant communication campaign, with respect to non-financial information, taking into account the requirements of the GRI-G4 guidelines at Core level, including the supplemental industry reporting needs for oil and gas companies.

We have prepared this report based on the principles of preparing reports under the GRI-G4 standard both for the process through which we determined the content of the report (participation of stakeholders, context of sustainability, materiality, exhaustiveness), as well as to ensure the quality of that information (balance, comparability, precision, timeliness, clarity and reliability).

In the coming years we will continue to make advances to improve the information supplied for those indicators considered to be relevant for Cepsa and to report other information that is not available to us today.

We also respond to the Principles of the Global Compact and we include information regarding Cepsa's actions that contribute to attaining the Sustainable Development Objectives.

SCOPE OF THE INFORMATION

The information included in this Annual and Corporate Responsibility Report for 2016 refers to all of the activities carried out by Cepsa as an energy company that performs its activity in all phases of the hydrocarbon value chain. The information regarding Cepsa set out in this report is consolidated and makes reference to the entire Company, although there are exceptions that are described in some of the chapters.

This report contains information relating to 2016, including, in some cases, quantitative data from prior years, in order to facilitate their comparison. Any data from prior years that has been restated is clearly indicated.

Note: The consolidated annual accounts of Compañía Española de Petróleos, S.A. and its subsidiaries, are held at Madrid's Merchant Registration.

* This table is available on our website.

AUDITOR REPORT AND CONSOLIDATED ANNUAL ACCOUNTS 2016

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Sole Shareholder of Compañía Española Petróleos, S.A. (Sociedad Unipersonal):

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Compañía Española Petróleos, S.A. (Sociedad Unipersonal) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated net equity, consolidated cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Compañía Española Petróleos, S.A. (Sociedad Unipersonal) and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es 1

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Compañía Española Petróleos, S.A. (Sociedad Unipersonal) and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2016 contains the explanations which the parent company´s Directors consider appropriate regarding Compañía Española Petróleos, S.A. (Sociedad Unipersonal) and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Compañía Española Petróleos, S.A. (Sociedad Unipersonal) and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu

February 28, 2017

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ECONOMIC, FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET

At 31 December 2016 y 2015 Compañía Española de Petróleos, S.A.U and Subsidiaries (Consolidated Group)
Thousands of euros

Assets	2016	2015
Non-current assets		
Intangible assets (Note 8)		
Intangible assets and rights	919,219	882,799
Amortizations charge and Impairment losses	(492,030)	(455,035)
Total Intangible assets	*427,189*	*427,764*
Consolidate Goodwill (Note 9)	***249,232***	***304,870***
Property, plant and equipment (Note 10)		
Tangible assets and rights	17,374,236	16,685,339
Amortizations charge and Impairment losses	(12,724,056)	(11,882,286)
Total property, plant and equipment	*4,650,180*	*4,803,053*
Investments in associates and joint ventures (Note 7)	***427,913***	***524,555***
Non-current financial assets (Note 11)	***296,592***	***116,942***
Deferred tax assets (Note 25)	***894,815***	***921,896***
Total non-current assets	*6,945,921*	*7,099,080*
Current assets		
Inventories (Note 13)	1,603,163	1,273,306
Trade and other receivables (Note 14)	1,560,681	1,665,968
Current income tax assets (Note 25)	155,494	95,052
Other current financial assets (Note 11)	127,890	216,522
Other current assets	15,142	9,810
Cash and equivalents (Note 15)	1,299,733	1,233,918
Assets held for sale and discontinued operations (Note 26)	-	*253,499*
Total current assets	*4,762,103*	*4,748,075*
Total assets	*11,708,024*	*11,847,155*

(The accompanying Notes 1 to 36 are an integral part of these Consolidated Statement of Changes in Equity).

Shareholders equity and liabilities	2016	2015
Equity (Note 16)		
Shareholders' equity		
Share capital	267,575	267,575
Share premium	338,728	338,728
Revaluation reserve	90,936	90,936
Retained earnings	3,215,633	4,397,862
Profit attributable to equity holders of the parent	601,832	(1,040,414)
Interim dividend	*(189,978)*	-
Total shareholder's equity	*4,324,726*	*4,054,687*
Adjustments for changes in value		
Translation reserve	828,030	762,724
Adjustments for changes in value in hedge operations (Note 16 d)	*(580,825)*	*(511,054)*
Total adjustments for changes in value	*247,205*	*251,670*
Total equity attributable to shareholders of the parent	*4,571,931*	*4,306,357*
Non-controlling interest		
Equity attributed to non-controlling interest (Note 16 f)	96,338	94,673
Profit/Loss attributed to non-controlling interests	*14,683*	*(6,834)*
Total non-controlling interests	*111,021*	*87,839*
Total equity	*4,682,952*	*4,394,196*
Non-current liabilities		
Bank borrowings (Note 17)	2,415,194	2,988,968
Deferred tax liabilities (Note 25)	282,584	304,365
Capital grants (Note 18)	37,268	47,068
Employee defined benefit liabilities (Note 19)	10,264	8,487
Provisions (Note 20)	564,720	514,005
Other non-current liabilities (Note 21)	22,775	20,698
Total non-current liabilities	*3,332,805*	*3,883,591*
Currents liabilities		
Bank borrowings (Note 17)	993,345	1,168,357
Trade and other payables (Note 21)	2,683,760	2,254,696
Current income tax liabilities (Note 25)	3,666	42,292
Other current liabilities	11,496	36,123
Liabilities held for sale and discontinued operations (Note 26)	-	67,900
Total current liabilities	*3,692,267*	*3,569,368*
Total equity and liabilities	*11,708,024*	*11,847,155*

(The accompanying Notes 1 to 36 are an integral part of these Consolidated Statement of Changes in Equity).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the years ended December 31, 2016 and 2015. Compañía Española de Petróleos, S.A.U and Subsidiaries (Consolidated Group)
Thousands of euros

	2016	2015
Sales of goods and rendering of services	15,455,171	17,452,002
Excise tax on oil and gas charged on sales	2,493,379	2,440,124
Excise tax on Revenue (Notes 3 r) and 22)	***17,948,550***	***19,892,126***
Changes in inventories of finished goods and work in progress	(151,248)	(281,364)
In-house work on non-current assets (Notes 8 and 10)	38,574	41,746
Procurements (Note 22)	(11,566,239)	(13,233,951)
Other operating income	76,178	71,789
Staff costs (Note 22)	(613,360)	(586,036)
Changes in operating allowance (Notes 13 and 14)	334,112	160,934
Other operating expenses (Note 22)		
Excise tax on oil and gas	(2,496,204)	(2,443,564)
Other expenses	(1,891,336)	(2,331,005)
Amortization charge (Notes 8 and 10)	(700,052)	(1,004,236)
Allocations to profit or loss of grants related to non-financial (Note 22)	41,094	33,320
Impairment and gains or losses on disposals of non-current assets (Note 22)	(81,680)	(3,384,406)
Operating Profit (loss)	***938,389***	***(3,064,647)***
Share in profit of companies accounted for using the equity method (Note 7)	(58,597)	(77,365)
Finance income (Note 24)	84,699	87,633
Finance costs (Note 24)	(144,049)	(183,800)
Impairment and gains or losses on disposals of Finance instruments (Note 24)	(1,339)	303,785

	2016	2015
Consolidated profit (loss) before tax	***819,103***	***(2,934,394)***
Income tax (Note 3 g) and 25)	(202,588)	1,882,754
Consolidate profit (loss) for the year from continuing operations	***616,515***	***(1,051,640)***
Consolidated profit (loss) for the year from continuing operations (Note 26)		***4,392***
Consolidated profit (loss) from the year	***616,515***	***(1,047,248)***
Attributable to:		
Equity holder of the parent	601,832	(1,040,414)
Non-controlling interests	14,683	(6,834)
Earnings (loss) per share (Note 27):		
Basic	2.25	(3.90)
Diluted	2.25	(3.90)

(The accompanying Notes 1 to 36 are an integral part of these Consolidated Statement of Changes in Equity).

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Cash flows from operating activities	2016	2015
Profit (losses) for the year before taxes	819,103	(2,934,394)
Depreciation and amortization charge and impairment losses	781,732	4,394,281
Changes in provisions for contingencies and expenses	56,200	73,684
Grants related to assets and other deferred income (Note 18)	(38,418)	(34,178)
Impairment and gains or losses on disposals of financial instruments (Notes 13 and 19)	2,360	(316,595)
Change in operating allowances	(329,601)	(159,338)
Finance result	47,295	67,282
Share of profit of an associate and a joint venture (Note 7)	58,597	77,365
Other changes	(31,706)	16,561
Cash flows from operating activities before change in operating working capital	*1,365,562*	*1,184,668*
Change in operating working capital	*212,387*	*783,117*
Interest paid	(81,568)	(81,899)
Interest received	36,195	7,682
Dividends received (Note 7)	41,961	27,358
Income tax paid/received	(219,189)	(262,232)
Other cash flows from operating activities	*(222,601)*	*(309,091)*
Total cash flows from operating activities	*1,355,348*	*1,658,693*

Cash Flows from investing activities	2016	2015
Payments		
Intangible assets	(28,534)	(41,224)
Property, plant and equipment	(549,239)	(1,030,539)
Financial assets		
Associates and other investments	(4,824)	(61,503)
Other financial assets	(111,487)	(2,300)
Acquisition of subsidiary, net of cash acquired	(665)	(15,104)
Grants received	502	107
Total payments	*(694,247)*	*(1,150,562)*
COLLECTIONS		
Intangible assets	2,603	3,302
Property, plant and equipment	19,330	23,652
Financial assets	519,684	228,041
Total collections	*541,617*	*254,995*
Total cash flows from investing activities	*(152,630)*	*(895,567)*

Cash Flows from financing activities	2016	2015
Dividends pay		
To equity holders of the Parents (Note 16.e)	(331,793)	(327,302)
To non-controlling interests	(11,706)	(11,259)
Total dividends paid	*(343,499)*	*(338,561)*
Proceeds from borrowings (*)	474,891	1,131,253
Repayment of borrowings (*)	(1,272,149)	(1,721,271)
Payments of financial lease liabilities	-	-
Total cash flows from Banks borrowings	*(797,258)*	*(590,018)*
Total cash flows from financing activities	*(1,140,757)*	*(928,579)*
Net increase in cash and cash equivalents	*61,961*	*(165,253)*
Effect of changes in foreign Exchange rates	3,854	16,773
Cash and cash equivalents at beginning of year	*1,233,918*	*1,382,597*
Cash and cash equivalents at the end of the year	*1,299,733*	*1,233,918*

Detail of changes of operating working capital		
Inventories	11,277	593,191
Trade and other receivables	(286,568)	952,200
Other current financial assets	(5,878)	(37,556)
Trade and other payables	496,574	(734,132)
Other changes	(3,017)	9,414
Total changes in operating working capital	*212,387*	*783,117*

(The accompanying Notes 1 to 36 are an integral part g these Consolidate Statement of Cash Flows).
(*) In 2016 in order to improve the representation of the Consolidated Statement of Cash Flows, the proceeds and repayment of borrowings are presented separately instead of by net variation, the information for 2015 has been consequently reclassified.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015 Compañía Española de Petróleos, S.A.U and Subsidiaries (Consolidated Group). Thousands of euros

	2016	2015
Consolidated profit (loss) for the year	***616,515***	***(1,047,248)***
Items to be reclassified to profit or loss:		
Gains and (losses) arising during the year	***28,128***	***72,149***
Net (losses) gains on cash flow hedges (Note 30)	(9,284)	31,417
Net losses arising on Net Investment hedge (Note 30)	(49,399)	(352,288)
Exchange gains on translation of foreign operations	72,653	315,371
Tax effect (Note 25)	14,158	77,649
Reclassification during the year to statement of profit/loss	***(25,246)***	***8,602***
Cash flow hedges (Note 30)	(34,177)	9,720
Share of other comprehensive profit of associates and joint ventures	-	2,398
Tax effect (Note 25)	8,932	(3,516)
Other comprehensive income/loss for the year, net of tax	***2,882***	***80,751***
Total consolidated comprehensive income/loss	***619,397***	***(966,497)***
a) Attributable to equity holders of the Parent	597,367	(956,954)
b) Attributable to non-controlling interests	22,030	(9,543)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015 Compañía Española de Petróleos, S.A.U and Subsidiaries (Consolidated Group).
Thousands of euros

	Equity attributable to equity holders of the parent							
	Share Capital	Share Premium	Retained Earnings	Translation Reserve	Cash Flow Hedge Reserve	Net Invesment Hedge Reserve	Non-Contro-lling interest	Total
Balance at 01.01.2016	***267,575***	***338,728***	***3,448,384***	***762,724***	***22,345***	***(533,398)***	***87,839***	***4,394,196***
Consolidated profit or loss for the year	-	-	601,832	-			14,683	616,515
Other comprehensive income for the year			-	65,306	(32,721)	(37,050)	7,347	2,882
Total consolidated comprehensive income	-	-	601,832	65,306	(32,721)	(37,050)	22,030	619,397
Changes due to transactions with shareholders								
Proposed gross dividend (Note 16 e)	-	-	(141,815)	-	-	-	(11,706)	(153,521)
Interim dividend for the finance year (Note 16 e)	-	-	(189,978)	-	-	-	-	(189,978)
Other changes in equity								
Sales / acquisition of non-controlling interest (Nota 16 f)	-	-	-	-	-	-	*12,858*	*12,858*
Total shareholder transactions	-	-	(331,793)	-	-	-	1,152	(330,641)
Balance 31.12.2016	***267,575***	***338,728***	***3,718,423***	***828,030***	***(10,376)***	***(570,448)***	***111,021***	***4,682,952***

	Equity attributable to equity holders of the parent							
	Share Capital	Share Premium	Retained Earnings	Translation Reserve	Cash Flow Hedge Reserve	Net Invesment Hedge Reserve	Non-Contro-lling interest	Total
Balance a 01.01.2015	***267,575***	***338,728***	***4,816,100***	***444,644***	***(9,518)***	***(266,915)***	***118,129***	***5,708,743***
Consolidated profit or loss for the year	-	-	(1,040,414)	-			(6,834)	(1,047,248)
Other comprehensive income for the year	-	-	-	318,080	31,863	(266,484)	(2,709)	80,750
Total consolidated comprehensive income	-	-	(1,040,414)	318,080	31,863	(266,484)	(9,543)	(966,498)
Changes due to transactions with shareholders								
Proposed gross dividend (Note 16 e)	-	-	(327,302)	-	-	-	(11,259)	(338,561)
Interim dividend for the Finance year (Note 16 e)	-	-	-	-	-	-	-	-
Other changes in equity								
Sale/acquisitions of non-controlling interest (Note 16 f)	-	-	-	-	-	-	*(9,488)*	*(9,488)*
Total Shareholders transactions	-	-	(327,302)	-	-		(20,747)	(348,049)
Balance at 31.12.2015	***267,575***	***338,728***	***3,448,384***	***762,724***	***22,345***	***(533,398)***	***87,839***	***4,394,196***

(The accompanying Notes 1 to 36 are an integral part of these Consolidated Statement of Changes in Equity).

CEPSA GROUP FINANCIAL INFORMATION

Income Statement for Years Ended 31 December
(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
Net sales	*17,938*	*19.892*	*25.640*	*27.577*	*28.811*
Excise tax on oil and gas charged on sales	(2,493)	(2.440)	(2.275)	(2.333)	(2.003)
Revenue without excise tax on oil and gas	15,445	17.452	23.365	25.244	26.808
Gross operating Profit (EBITDA)					
Trading	73	65	13	17	
Corporation	(62)	(72)	(102)		
Exploration and Production	444	549	955	729	872
Refining	558	722	244	410	625
Marketing	275	344	318		
Petrochemicals	225	138	221	214	227
Gas y Power	37	21	32	23	53
Total adjusted operating income excluding discontinued operations in Petrochemicals	*1,549*	*1,766*	*1,643*	*1,393*	*1,777*
Total adjusted operating income	*1,549*	*1,779*	*1,681*	*1,393*	*1,777*
Adjusted operating income (*)					
Trading	72	65	13	17	
Corporation	(62)	(72)	(101)		
Exploration and Production	111	(96)	283	436	533
Refining	328	512	32	72	265
Marketing	189	258	231		
Petrochemical	176	96	153	161	161
Gas and Power	21	7	13	5	42
Total adjusted operating income	*835*	*771*	*625*	*691*	*1,001*
Inventory gains/ (losses)	168	(444)	(891)	(119)	163
Other non-recurring items	(65)	(3,392)	(132)	(85)	(72)
Operating profit (losses)	*938*	*(3,065)*	*(399)*	*487*	*1,092*
Consolidated profit before tax	*819*	*(2,934)*	*(381)*	*795*	*1,068*
Corporate income taxes		1,883	32	(247)	(477)
Consolidated net profit for the year for continuing operations	***617***	***(1,052)***	***(349)***	***547***	***591***
Consolidated net profit for the year for discontinued operations		***4***	***(22)***		
Consolidated net profit of the year	***617***	***(1,047)***	***(372)***	***547***	***591***
Non-controlling interests	(15)	7	(18)	(14)	(15)
Profit attributable to parent Company	***602***	***(1,040)***	***(389)***	***533***	***576***
Net losses/ (gains) on non-recurring items in the period	52	(1,652)	848	(163)	(21)
Adjustment to minority interests for net losses/ (gains) on non-recurring items in the period	(3)	16	-	-	-
Adjusted net income	***48***	***(1,636)***	***459***	***371***	***555***

**Financial year 2014 has been restated for comparison purposes with financial year 2015.*

TANGIBLE FIXED ASSETS, INTANGIBLE ASSETS AND LONG-TERM FINANCIAL INVESTMENT IN ASSOCIATED COMPANIES

Breakdown by Business Segments

(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
Trading	0.4	1	-	-	
Corporation	12	26	57	11	7
Exploration and Production	172	543	2.643	386	247
Refining	208	177	153	187	371
Marketing	85	104	85		
Petrochemicals	86	172	265	184	86
Technology, Gas and Power	8	28	3	159	23
Total Investments	*572*	*1,052*	*3.206*	*926*	*734*

STATEMENT OF CASH FLOWS FOR THE YEAR

Ended December 31

(Millions of euros)

Cash Flows from Operating Activities	2016	2015	2014 (RRestated)*	2013	2012
Cash flows from operating activities (before changes in working capital)	1,143	876	887	951	1,525
Changes in operating working capital	212	783	549	661	(618)
Total cash flows from operating activities	*1,355*	*1,659*	*1,436*	*1,612*	*907*
Cash flows used in investing activities					
Capital expenditure	(694)	(1,151)	(3,178)	(892)	(761)
Capital grants received	-	-	1	2	3
Proceeds from assets sales	541	255	130	353	49
Investments due to changes in the Group					
Total Cash flows used in investing activities	*(153)*	*(896)*	*(3,047)*	*(537)*	*(709)*
Cash flows from financing activities					
Changes in short or long term loans	(797)	(590)	978	(169)	595
Cash dividend paid	(343)	(339)	(314)	(374)	(337)
Total cash flows (used in) / form financing activities	*(1,141)*	*(929)*	*664*	*(543)*	*258*
Total net increase/ (decrease) in cash and cash equivalents	*62*	*(165)*	*(947)*	*532*	*456*

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

BALANCE SHEET
Before Profit Distribution at December 31
(Millions of euros)

Assets	2016	2015	2014 (Restated)*	2013	2012
Non-current assets					
Fixed assets	6,696	6,794	9,071	5,504	5,514
Intangible assets	427	428	488	504	540
Tangible fixed assets	4,650	4,803	7,226	4,330	4,354
Long-term financial investments	1,619	1,563	1,358	670	620
Goodwill in consolidation	249	305	821	50	63
Non-current assets	*6,946*	*7,099*	*9,892*	*5,554*	*5,577*
Current assets					
Inventories	1,603	1,273	1,754	1,934	2,758
Accounts receivable	1,716	1,761	2,678	2,977	2,874
Other short-term investments	128	217	144	172	163
Other current assets	15	10	8	14	9
Cash and cash equivalents	1,300	1,234	1,383	2,283	1,758
Current assets	*4,762*	*4,495*	*5,967*	*7,380*	*7,562*
Non-current assets held for sale and from discontinued operations	-	253	-	-	-
Total Assets	***11,708***	***11,847***	***15,859***	***12,934***	***13,139***

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

Shareholder's equity and liabilities	2016	2015	2014 (Restated)*	2013	2012
Equity attributable to shareholders of the parent company	***4,572***	***4,306***	***5,591***	***6,357***	***6,243***
Equity	***4,325***	***4,055***	***5,422***	***6,345***	***6,173***
Subscribed capital stock	268	268	268	268	268
Paid-in surplus	339	339	339	339	339
Revaluation reserve	91	91	91	91	91
Income attributable to the parent Company	3,216	4,398	5,114	5,274	5,060
Losses and earnings attributable to parent company	602	(1,040)	(389)	534	576
Interim dividend paid in the year	(190)	-	-	(161)	(161)
Adjustments for changes in value	***247***	***252***	***168***	***11***	***70***
Translation differences	828	763	445	32	89
Other adjustments form changes in value	(581)	(511)	(276)	(21)	(19)
Minority Interests	***111***	***88***	***118***	***77***	***69***
Total shareholder's equity	*4,683*	*4,394*	*5,709*	*6,434*	*6,312*
Non-current liabilities		0			
Payable to credit entities	2,360	2,905	3,022	2,299	2,431
Other interest-bearing loans	55	84	81	96	109
Capital grants	37	47	65	72	83
Provisions	575	522	352	212	205
Other non-current liabilities	306	325	2,030	339	380
Non-Current liabilities	*3,333*	*3,884*	*5,551*	*3,018*	*3,208*
Current liabilities					
Payable to credit entities	975	1,147	1,266	681	850
Other interest-bearing Loans	18	22	19	29	20
Other current liabilities	2,699	2,333	3,314	2,772	2,749
Current liabilities	*3,692*	*3,501*	*4,599*	*3,482*	*3,619*
Liabilities held for sale and discontinued operations	-	***68***	-		
Total shareholder's equity and liabilities	*11,708*	*11,847*	*15,859*	*12,934*	*13,139*

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

INTANGIBLE AND TANGIBLE
At 31 December 2016
(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
Gross intangible assets	***919***	***883***	***824***	***827***	***848***
Operating licenses, concessions patents, etc.	116	111	95	91	105
EDP computer software	230	210	183	179	167
Other intangible assets	573	562	546	557	576
Amortization and impairment of intangible assets	***492***	***455***	***337***	***322***	***308***
Operating licenses, concessions, patents, etc.	64	59	55	49	45
EDP computer software	161	149	140	143	133
Other intangible assets	267	247	142	130	130
Net intangible assets	***427***	***428***	***488***	***505***	***540***
Operating licenses, concessions, patents, etc.	52	52	40	42	60
EDP computer software	69	60	43	36	34
Other intangible assets	306	316	405	427	446
Gross tangible fixed assets:	***17,374***	***16,685***	***15,849***	***11,795***	***11,229***
Land and structures	322	315	325	404	398
Technical installations and machinery	8,360	7,994	7,477	7,334	7,008
Investments in oil and gas assets with proven and un proven reserves	6,440	6,677	6,384	2,739	2,659
Other installations, tools and furniture	110	101	153	134	126
Advances and construction in progress	629	727	938	556	345
Other fixed assets	1,513	872	572	628	693
Depreciations and impairment of property, plant and equipment	***12,724***	***11,883***	***8,623***	***7,295***	***6,874***
Land and structures	112	94	97	128	119
Technical installations and machinery	5,502	5,367	5,206	4,554	4,232
Investments in oil and gas assets with proven and un proven reserves	5,973	6,071	2,994	2,202	2,006
Other installations, tools and furniture	735	76	78	104	99
Other fixed assets	402	274	247	307	418
Net tangible fixed assets:	***4,650***	***4,802***	***7,226***	***4,500***	***4,355***
Land and structures	210	221	228	276	279
Technical installations and machinery	2,858	2,627	2,270	2,780	2,776
Investment in oil and gas assets with proven and unproven reserves	467	606	3,389	537	653
Other installations, tools and furniture	(625)	25	75	30	27
Other fixed assets	1,111	598	325	321	275
Advances and construction in progress	629	727	938	556	345

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

STATEMENT OF CAPITAL EMPLOYED
Before Profit Distribution at December 31
(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
Capital employed					
1. Net fixed assets	6,942	7,097	9,898	5,555	5,577
2. Working capital	769	931	1,303	2,328	2,932
Net assets	7,711	8,027	11,200	7,883	8,509
3. Long-term operating liabilities	(919)	(895)	(2.379)	(623)	(669)
(919)	*(895)*	*(2,379)*	*(623)*	*(669)*	*7.840*
Capital Employed(*)	6,792	7,133	8,822	7,260	7,840
Capital used					
4. Total Shareholders' equity	4,683	4,394	5,709	6,434	6,312
4.1. Shareholders' equity	4,572	4,306	5,591	6,357	6,243
4.2. Minority interests	111	88	118	77	69
5. Net debt:	2,108	2,923	3,042	826	1,528
5.1. Long-term financing	2,415	2,989	3,104	2,395	2,540
5.2. Short-term financing	993	1,168	1,321	714	870
5.3. Short-term interest-bearing loans					(124)
5.4. Cash and cash equivalents	(1,300)	(1,234)	(1,383)	(2,283)	(1,758)
Capital used (*)	*6,792*	*7,318*	*8,751*	*7,260*	*7,840*

	2016	2015	2014 (Restated)*	2013	2012
Discontinued operations	-	***185***	-	-	-
Financial year 214 has been restated for comparison purposes with financial year 2015	-	-	***(71)***	-	-

(*) Excluded discontinuing operations.
** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

BREAKDOWN OF ADJUSTED CAPITAL EMPLOYED BY BUSINESS

At 31 December 2016

(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
Adjusted capital employed					
Trading	(239)	(92)	(47)	94	
Corporation	12	39	(20)		
Exploration and Production	2,134	3,589	3,177	774	711
Refining	2,653	2,674	2,784	3,951	4,607
Marketing	649	695	923		
Petrochemicals	1,225	1,223	1,353	1,181	1,247
Gas and Power	341	328	455	421	349
Total adjusted capital employed	*6,775*	*8,456*	*8,624*	*6,914*	*6,682*
Accumulated adjustment in stocks valuation	17	(114)	198	839	926
Accumulated adjustment in non-recurrent items	-	(1,209)			
Total capital employed	*6,792*	*7,133*	*8,822*	*7,260*	*7,840*

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

STRUCTURE OF STATEMENT OF CAPITAL EMPLOYED

Before Profit Distribution at December 31

(Millions of euros)

	2016	2015	2014 (Restated)*	2013	2012
1. Net fixed assets	122.22%	99.50%	112.20%	76.52%	74.90%
2. Working capital	11.32%	13.05%	14.77%	32.07%	33.21%
3. Long-term operating liabilities	(13.53)%	(12.55)%	(26.96)%	(8.58)%	(8.11)%

Capital employed (*)	100.00%	100.00%	100.00%	100.00%	100.00%
4. Shareholders' equity	68.95%	61.61%	64.71%	88.62%	81.00%
5. Net debt	31.05%	40.99%	34.48%	11.38%	19.00%

(*) Excluded discontinuing operations.
** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

PROFITABILITY AND EQUITY RATIOS
At December 31

	2016	2015	2014 (Restated)*	2013	2012
Return on Average Capital Employed (R.O.A.C.E.)(1)	8.8%	7.6%	6.4%	5.9%	8.4%
Return on average equity (R.O.A.E.)(2)	13.6%	(21.0)%	(6.5)%	8.5%	9.2%
Adjusted Return on Average Equity (3)	12.3%	10.8%	8.4%	6.8%	9.6%
Net income attributable to the parent Company / Average number of shares	2.2	(3.9)	(1.5)	2.0	2.2
Adjusted net income attributable to the parent Company / Average number of shares	2.1	2.2	1.7	1.4	1.9
Net income attributable to the parent Company / Net sales revenues(4)	3.9%	(6.0)%	(1.7)%	2.1%	2.3%
Adjusted net income attributable to the parent Company / Net sales revenues (5)	(22.2)%	(24.4)%	(20.2)%	1.5%	2.0%
Average financial debt / Cash flows from operating activities	1.9	1.8	1.3	0.7	1.8
Net interest-bearing debt (includes internal allowances) / Shareholders' equity (GEARING)	45.0%	66.5%	53.3%	12.8%	24.2%

(1) Net Income before interest, deducting operating taxes / Adjusted average capital employed.without discounting investments without profitability, taking into account that variable, ROACE would be placed at 8,9% for 2016.

(2) Net income attributable to the parent company / Average shareholders' equity.

(3) Adjusted net income attributable to the parent company / Adjusted average shareholders' equity. ROAE will be 12,6% in 2016.

(4) Net Income attributable to the parent company / Net sales revenues excluding excise tax on oil and gas charged to sales.

(5) Adjusted net income attributable to the parent company / Net sales revenues excluding excise tax on oil and gas charged to sales.

** Financial year 2014 has been restated for comparison purposes with financial year 2015*

OPERATING ENVIRONMENT INDICATORS
At December 31

	2016	2015	2014 (Restated)*	2013	2012
Brent crude ($/Barrel)	43.70	52.46	99.00	108.70	111.60
Change rate ($/€)	1.107	1.110	1.329	1.328	1.285
Return on Assets					
ONP (adjusted)	***616.7***	***650.6***	***511.6***	***396.3***	***581.9***
Adjusted capital invested current year	7,695	11,233	11,003	7,044	7,583
Adjusted capital invested previous year	11,233	11,003	7,044	7,583	8,141
ROA	***6.52%***	***5.85%***	***5.67%***	***5.42%***	***16.29%***

** Financial year 2014 has been restated for comparison purposes with financial year 2015.*

GLOSSARY

Barrel: Measure of volume equivalent to 159 litres.

Biofuel: Fuel from vegetable oil.

BREEAM: leading global sustainable construction certificate, adapted to the regulations, language and construction practices in Spain.

CDP: Carbon Disclosure Project.

CEOR: Chemical Enhanced Oil Recovery

CLP: Classification, Labelling and Packaging, making reference to Regulation (EC) 1272/2008 regarding the United Nations Globally Harmonized System (GHS) for the classification, labeling and packaging of chemical substances and mixes to attain international harmonisation.

CH_4: Methane.

Basel Convention: multi-lateral environmental treaty on the control of transboundary movements of hazardous wastes and their disposal.

CO_2: Carbon dioxide.

CO_2 equivalent: Equivalence in carbon dioxide (CO_2) of greenhouse gas emissions.

Cracking: This involves breaking up or splitting high molecular weight hydrocarbons (fuels such as diesel oil and fuel oil) into lower molecular weight components (napthas).

CROP: Continuous Refining Optimisation Programme.

Emission rights: Permits or credits awarded to organisations that enable them to fulfil the objectives of the Kyoto Protocol and which can subsequently be sold in a regulated market.

Effluent: Liquid waste which is usually discharged as a result of the various processes at a production plant.

FRC: Family Responsible Company.

EFQM: European Foundation for Quality Management.

Direct greenhouse gas emissions (Scope 1): Omissions that take place at centres owned by the organisation or those under its control.

Indirect greenhouse gas emissions due to consuming energy (Scope 2): The emissions that take place due to the purchase or acquisition of electricity, heating, cooling and steam consumed by the organisation.

Other indirect greenhouse gas emissions (Scope 3): All indirect emissions (except for those included in Scope 2) that take place outside of the organisation, at both production and consumer entities.

FEIQUE: Federación Empresarial de la Industria Química Española (Spanish Chemicals Industry Business Federation).

GHS: (Global Harmonised System of Classification and Labelling of Chemicals): Globally Harmonized System of Classification and Labelling of Chemicals regarding harmonised criteria on the danger of chemical substances.

GJ: Gigajoule (1 billion joules). The joule is the International System unit of work, which is equivalent to the work done by a force of 1 Newton acting over a distance of 1 metre in the direction of the force.

GW: Gigawatt (1 billion watts). The watt is the unit of power in the International System produced by a potential difference of 1 volt and an electric current of 1 ampere (1 volt-ampere).

GRI: Independent institution that developed the first global standard for the preparation of sustainability reports for those companies that wish to evaluate their financial, environmental and social performance. It is an official centre collaborating with the United Nations Environment Programme (UNEP).

Hydroskimming: A refinery with a configuration that only includes distillation, reformation and some hydro-treatment.

ISO: International Organisation for Standardisation

ISO 9001: Certifiable quality management standard.

ISO 14001: Certifiable environmental management standard.

ISO 14064: Standard that verifies reports on Greenhouse Gas Emissions

ISO 50001: Certifiable energy management standard.

ISO 19600: Certifiable compliance management standard.

LAB: Linear alkyl benezene, the most common raw material in the production of biodegradable detergents.

MSAR: Alternative marine fuel.

MWh: Megawatt hour. Energy unit

NOx: Nitrogen oxides.

UNE-EN ISO: Standard international regulation concerning Spain.

Offshore: Away from the coast or out to sea. Applies to activities performed at sea, such as the operation of oil platforms.

Onshore: Along the coastline, on land.

ILO (International Labour Organisation): United Nations Organisation that encourages internationally recognised social justice and human and labour rights.

United Nations Global Compact: Initiative intended to encourage the private sector to assume environmental, labour, human rights protection and anti-corruption commitments.

PIA: Purified isophthalic acid for the manufacture of polyesters.

Pool: Wholesale electricity market. Market overseen by the operator OMEL, in which electricity is purchased and sold on a daily basis.

LETP: Liquid effluent treatment plant.

Preflash: Distillation column in which the thermo-dynamic conditions partially vaporize crude oil.

Piezometric networks: These are used to find out the temporary evolutions of water potentials.

ROP: Refining Optimisation Plan.

SO_2: Sulphur dioxide.

Seismic: Method for determining a detailed subterranean structure of rock by detecting and measuring reflected acoustic waves impacting the various rock strata. It is used to locate structures that may potentially contain crude oil or gas before drilling. The processing of these data allow 3-D images of the subterranean structures to be generated.

Solomon: index that measures refining efficiency created by the consulting firm Solomon Associates.

Working interest: Total production interest, calculated before applying contractual conditions in the case of Production Distribution Agreements.

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