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## NOTES FROM THE BOARD OF DIRECTORS

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As set forth in Article 35 of the Company Bylaws, the Annual General Meeting of Shareholders of June 22, 2007 accepted the voluntary resignation tendered by Menno Grouvel from the Board; appointed Patrick Pouyanné as a Director; and ratified the appointment of Eric de Menten, who was co-opted onto the Board at the meeting of this body held on June 23, 2006.

The same Annual Meeting also resolved to re-elect the incumbent Directors, H.R.H. Carlos de Borbón Dos-Sicilias, Mohamed Nasser Al Khaily, Jacques Porez, Fernando de Asúa and Jean Privey for another five-year term of office, pursuant to the provisions of Article 34 of the Company Bylaws.

The Board of Directors, at its meeting held after the Annual Meeting, resolved to confirm Alfredo Saéñz in the offices of Vice Chairman of the Board, Executive Committee and Nominations and Compensation Committee, as provided for in Article 39 of the Company Bylaws. At this same meeting, the Board also resolved to confirm Fernando de Asúa as Chairman of the Audit Committee, as set forth in Article 39 of the Company Bylaws.

The Board of Directors, likewise at this meeting held on June 22, 2007, and as proposed by the Nominations and Compensation Committee, appointed Bernadette Spinoy as a member of the Executive Committee, to fill the vacancy caused by Mr. Grouvel's resignation.

The Board of Directors of the company, at its meeting of September 27, 2007, resolved to accept the voluntary resignation tendered by Mohamed Nasser Al Khaily, as Board member, Executive Committee member and Audit Committee member, at the same time acknowledging his valuable contributions and commitment throughout his years of service to the company. As proposed by the Nominations and Compensation Committee, the shareholder Saeed Al Mehairbi was provisionally co-opted onto the Board, pursuant to Article 35 of the Company Bylaws, and his appointment will be submitted for ratification, where applicable, at CEPESA's next Annual Meeting, along with his appointment as a member of the Executive Committee and Audit Committee.

At this same Board meeting, and due to the sad and untimely death of Vincent Méary in July 2007, in order to fill the vacancies on the Board of Directors and Audit Committee and as proposed by the Nominations and Compensation Committee, the shareholder Humbert de Wendel was provisionally co-opted onto the Board, as set forth under Article 35 of the Company Bylaws. His appointment will be submitted for ratification, where applicable, at the next Annual Meeting, together with his appointment as an Audit Committee member.

The Board would like to take this opportunity to honor the memory of Mr. Méary and express their extreme gratitude for his distinguished and tireless service and contributions to CEPESA's growth

and success throughout his tenure, and their sadness at this terrible loss, while at the same time conveying to all of Mr. Méary's family their most heartfelt condolences.

The Board of Directors meeting on March 27, 2008 formulated and approved the 2007 Financial Statements (Balance Sheets, Statements of Income, and Notes to the Financial Statements) and the Management Discussion & Analysis, for CEPSA and its Consolidated Group, all documents signed, as proof of consent, by each of the Board members, having likewise approved in the same meeting, the Proposal for 2007 Profit Distribution for Compañía Española de Petróleos, S.A., pursuant to what is set forth in Article 171-2 of the Companies Act in force and other applicable laws. The Board of Directors also formulated, approved and resolved to submit the Explanatory Report on the MD&A to the next Annual Meeting held by the company.

The Board, at this same meeting, also approved the company's 2007 Corporate Governance Report.

The Board of Directors would like to extend their sincerest gratitude and appreciation to all of the employees of the CEPSA Group, in each and every one of its centers, for their commitment, hard work and loyal service throughout the year.

# CEPSA GROUP FINANCIAL INFORMATION

## Statement of Income for the years ended December 31

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
Sales of products and services	18,888	18,474	16,188	11,945
Excise tax on oil and gas charged to sale	2,342	2,233	2,182	2,168
<b>Net sales</b>	<b>21,230</b>	<b>20,707</b>	<b>18,370</b>	<b>14,113</b>
Other operating income	196	275	278	97
<b>Total sales &amp; operating revenues (**)</b>	<b>21,426</b>	<b>20,982</b>	<b>18,648</b>	<b>14,210</b>
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA) (*)</b>				
Exploration & Production	499	499	461	399
Refining, Marketing & Basic Chemicals	737	822	938	730
Petrochemicals	133	126	211	182
Gas & Power	60	83	99	42
<b>Total earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	<b>1,429</b>	<b>1,530</b>	<b>1,709</b>	<b>1,353</b>
<b>Operating income (*)</b>				
Exploration & Production	381	393	357	301
Refining, Marketing & Basic Chemicals	533	641	745	583
Petrochemicals	56	57	138	95
Gas & Power	33	49	77	23
<b>Total operating income</b>	<b>1,003</b>	<b>1,140</b>	<b>1,317</b>	<b>1,002</b>
<b>Operating income from business segments (*)</b>				
Exploration & Production	377	396	357	301
Refining, Marketing & Basic Chemicals	495	591	707	543
Petrochemicals	51	53	136	91
Gas & Power	33	49	76	23
<b>Total operating income from business segments</b>	<b>956</b>	<b>1,089</b>	<b>1,276</b>	<b>957</b>
Average Cost vs. Replacement Cost difference	160	67	250	85
Other non-recurring items	4	(3)	2	5
<b>Total consolidated operating income</b>	<b>1,120</b>	<b>1,153</b>	<b>1,528</b>	<b>1,048</b>
<b>Income before taxes</b>	<b>1,170</b>	<b>1,190</b>	<b>1,518</b>	<b>1,058</b>
Corporate income taxes	(405)	(385)	(496)	(364)
<b>Consolidated income from continuing operations</b>	<b>765</b>	<b>805</b>	<b>1,022</b>	<b>694</b>
Income/(loss) from discontinued operations	-	21	(1)	(3)
<b>CONSOLIDATED NET INCOME (BEFORE MINORITY INTERESTS)</b>	<b>765</b>	<b>826</b>	<b>1,021</b>	<b>691</b>
Minority interests	(17)	(14)	(11)	(8)
<b>Net income (attributable to the parent company)</b>	<b>748</b>	<b>812</b>	<b>1,010</b>	<b>684</b>
Impact from non-recurring items in the period	(110)	(62)	(163)	(56)
<b>Ordinary net income (attributable to the parent company)</b>	<b>638</b>	<b>750</b>	<b>847</b>	<b>628</b>

(\*) Consolidated figures with inventory valuation and cost of sales using Replacement Cost method

(\*\*) Total operating revenues fully includes the item of "Changes in finished product and work-in-process inventories"

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

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
Exploration & Production	98	91	76	58
Refining, Transportation & Marketing	413	340	368	442
Petrochemicals	65	121	77	29
Technology, Gas & Cogeneration	55	21	24	40
Corporate Area	4	8	6	10
<b>Total</b>	<b>635</b>	<b>581</b>	<b>551</b>	<b>579</b>

Consolidated Statements of Cash Flows for the years ended December 31

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>Cash flows from operating activities</b>				
Cash flows from operating activities (before changes in working capital)	1,154	1,180	1,480	1,056
Changes in operating working capital	(229)	(159)	(459)	(110)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>925</b>	<b>1.021</b>	<b>1.021</b>	<b>946</b>
<b>Cash flows used in investing activities</b>				
Capital expenditures	(650)	(550)	(414)	(553)
Capital grants received	7	2	-	2
Proceeds from asset sales	52	54	54	66
Investments due to changes in consolidated Group	-	-	-	-
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(591)</b>	<b>(494)</b>	<b>(360)</b>	<b>(485)</b>
<b>Cash flows (used in)/from financing activities</b>				
Changes in short or long-term loans	(116)	(224)	(96)	(182)
Cash dividend paid	(342)	(346)	(309)	(260)
<b>TOTAL CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES</b>	<b>(458)</b>	<b>(570)</b>	<b>(405)</b>	<b>(442)</b>
<b>TOTAL NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(124)</b>	<b>(43)</b>	<b>256</b>	<b>19</b>

## Balance Sheet (before profit distribution) at December 31

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>ASSETS</b>				
Due from shareholders for uncalled capital	-	-	-	-
<b>Fixed assets:</b>	<b>4,521</b>	<b>4,427</b>	<b>4,226</b>	<b>4,040</b>
Start-up expenses	-	-	-	-
Intangible assets	152	184	182	124
Tangible fixed assets	3,988	3,836	3,705	3,573
Long-term financial investments	381	407	339	343
<b>Goodwill in consolidation</b>	<b>41</b>	<b>38</b>	<b>38</b>	<b>30</b>
Deferred charges	-	-	-	-
<b>NON-CURRENT ASSETS</b>	<b>4,562</b>	<b>4,465</b>	<b>4,264</b>	<b>4,070</b>
<b>Current assets</b>				
Due from shareholders for called capital	-	-	-	-
Inventories	1,739	1,591	1,439	1,059
Accounts receivable	2,808	2,251	2,225	1,810
Other short-term investments	110	67	139	95
Cash and cash equivalents	208	326	371	112
Other current assets	14	13	31	29
<b>CURRENT ASSETS</b>	<b>4,879</b>	<b>4,248</b>	<b>4,205</b>	<b>3,105</b>
<b>Non-current assets held for sale and from discontinued operations</b>	<b>-</b>	<b>11</b>	<b>6</b>	<b>6</b>
<b>TOTAL ASSETS</b>	<b>9,441</b>	<b>8,724</b>	<b>8,475</b>	<b>7,181</b>

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' Equity</b>	<b>5,212</b>	<b>4,779</b>	<b>4,310</b>	<b>3,598</b>
Subscribed capital stock	268	268	268	268
Paid-in surplus	339	339	339	339
Revaluation reserve	91	91	91	91
Retained earnings	3,781	3,303	2,627	2,211
Fair value reserve	98	86	81	122
Translation differences	34	27	41	(2)
Income attributable to the parent company	748	812	1,010	684
Interim dividend paid in the year	(147)	(147)	(147)	(112)
<b>Minority interests</b>	<b>71</b>	<b>59</b>	<b>64</b>	<b>42</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,283</b>	<b>4,838</b>	<b>4,374</b>	<b>3,641</b>
<b>Negative difference in consolidation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>				
Deferred revenues	70	62	67	73
Provisions for contingencies and expenses	202	252	252	227
Long-term debt:				
Payable to credit entities	287	442	667	727
Other interest-bearing loans	146	141	130	71
Other non-current liabilities	478	459	450	309
<b>NON-CURRENT LIABILITIES</b>	<b>1,183</b>	<b>1,356</b>	<b>1,566</b>	<b>1,407</b>
<b>Current liabilities</b>				
Short-term debt				
Payable to credit entities	257	284	313	305
Other interest-bearing loans	66	26	31	67
Other current liabilities	2,652	2,220	2,191	1,762
<b>CURRENT LIABILITIES</b>	<b>2,975</b>	<b>2,530</b>	<b>2,535</b>	<b>2,134</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>9,441</b>	<b>8,724</b>	<b>8,475</b>	<b>7,181</b>



## Intangible and Tangible Fixed Assets at December 31

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>Gross intangible assets:</b>	<b>397</b>	<b>552</b>	<b>431</b>	<b>353</b>
Research & Development costs	-	-	1	4
Operating licenses, concessions, patents etc.	80	71	69	60
Goodwill	5	5	5	5
EDP computer software	128	118	111	100
Other intangible assets	184	358	245	184
<b>Amortization and provisions of intangible assets:</b>	<b>245</b>	<b>368</b>	<b>249</b>	<b>229</b>
Research & Development costs	-	-	1	1
Operating licenses, concessions, patents etc.	41	37	35	33
Goodwill	5	4	4	4
EDP computer software	102	92	83	75
Other intangible assets	97	235	126	116
<b>Net intangible assets:</b>	<b>152</b>	<b>184</b>	<b>182</b>	<b>124</b>
Research & Development costs	-	-	-	3
Operating licenses, concessions, patents etc.	39	34	34	27
Goodwill	-	1	1	1
EDP computer software	26	26	28	25
Other intangible assets	87	123	120	68
<b>Gross tangible fixed assets:</b>	<b>8,090</b>	<b>7,591</b>	<b>7,144</b>	<b>6,710</b>
Land and structures	341	313	309	300
Technical installations and machinery	5,349	5,041	4,801	4,547
Investments in oil and gas producing assets	1,216	1,121	1,045	1,056
Other installations, tools and furniture	110	100	96	91
Advances and construction in progress	428	392	317	209
Other fixed assets	646	624	576	507
<b>Depreciation and provisions of tangible fixed assets:</b>	<b>4,102</b>	<b>3,755</b>	<b>3,439</b>	<b>3,137</b>
Land and structures	83	73	65	58
Technical installations and machinery	3,073	2,889	2,708	2,463
Investments in oil and gas producing assets	691	571	478	462
Other installations, tools and furniture	82	69	61	52
Other fixed assets	173	153	127	102
<b>Net tangible fixed assets:</b>	<b>3,988</b>	<b>3,836</b>	<b>3,705</b>	<b>3,573</b>
Land and structures	258	240	244	242
Technical installations and machinery	2,276	2,152	2,093	2,084
Investments in oil and gas producing assets	525	550	567	594
Other installations, tools and furniture	28	31	35	39
Other fixed assets	473	471	449	405
Advances and construction in progress	428	392	317	209

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

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>CAPITAL EMPLOYED</b>				
1. Net fixed assets	4,546	4,433	4,264	4,041
2. Working capital	1,970	1,672	1,588	1,148
<b>NET ASSETS</b>	<b>6,516</b>	<b>6,105</b>	<b>5,852</b>	<b>5,189</b>
3. Long-term operating liabilities	(751)	(774)	(811)	(576)
<b>CAPITAL EMPLOYED</b>	<b>5,765</b>	<b>5,331</b>	<b>5,041</b>	<b>4,613</b>
<b>CAPITAL USED</b>				
4. Permanent resources:	5,716	5,421	5,171	4,416
4.1. Shareholders' equity	5,212	4,779	4,310	3,598
4.2. Minority interests	71	59	64	42
4.3. Negative difference in consolidation	-	-	-	-
4.4. Internal allowances	-	-	-	-
4.5. Unrealized foreign currency exchange gains	-	-	-	-
4.6. Long-term interest-bearing loans	433	583	797	776
5. Net short-term financing:	49	(90)	(130)	197
5.1. Short-term financing	323	308	341	369
5.2. Short-term interest-bearing loans	(66)	(72)	(100)	(60)
5.3. Cash and cash equivalents	(208)	(326)	(371)	(112)
<b>CAPITAL USED</b>	<b>5,765</b>	<b>5,331</b>	<b>5,041</b>	<b>4,613</b>

## Breakdown of Capital Employed by Business Segments at December 31

(Millions of Euros)

	IFRS			
	2007	2006	2005	2004
<b>Capital Employed (*)</b>				
Exploration & Production	493	509	538	567
Refining, Marketing & Basic Chemicals	3,476	3,213	2,925	2,716
Petrochemicals	1,044	1,010	1,013	909
Gas & Power	251	224	247	266
<b>Capital Employed (*)</b>	<b>5,264</b>	<b>4,956</b>	<b>4,723</b>	<b>4,458</b>
Net difference Average Cost - Replacement Cost	501	375	318	155
<b>Total Capital Employed</b>	<b>5,765</b>	<b>5,331</b>	<b>5,041</b>	<b>4,613</b>

(\*) Consolidated figures using Replacement cost method of inventory valuation

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

	IFRS			
	2007	2006	2005	2004
1. Net fixed assets	78.86%	82.97%	84.37%	87.16%
2. Working capital	34.17%	31.29%	31.43%	24.75%
3. Long-term operating liabilities	(13.03)%	(14.26)%	(15.80)%	(11.91)%
<b>Capital employed</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
4. Permanent resources	99.15%	101.68%	102.56%	95.76%
5. Net short-term financing	0.85%	(1.68)%	(2.56)%	4.24%

## Profitability and Equity Ratios at December 31

	IFRS			
	2007	2006	2005	2004
Return on Average Capital Employed (ROACE) (1)	12.7%	16.4%	18.8%	14.8%
Return on Average Equity (ROAE) (2)	15.0%	17.9%	25.6%	20.2%
Return on Average Equity (ROAE) using Replacement Cost (3)	13.9%	19.0%	22.4%	19.5%
Net income attributable to the parent company / Average number of shares	2.8	3.0	3.8	2.6
Net Income attributable to the parent company (Replacement Cost) / Average number of shares	2.4	2.9	3.2	2.3
Net Income attributable to the parent company / Net sales revenues	3.52%	3.92%	5.50%	4.85%
Net Income attributable to the parent company (Replacement Cost) / Net sales revenues	3.01%	3.71%	4.62%	4.45%
Average financial debt / Cash flow from operating activities (before changes in working capital)	0.4	0.5	0.6	0.9
Net interest-bearing debt (includes Internal Allowances) / Shareholders' equity (GEARING)	9.1%	10.2%	15.2%	26.7%

(1) Income before interest, deducting operating taxes / Average Capital employed (Replacement Cost)

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

(3) Net income attributable to the parent company / Average shareholders' equity (Replacement Cost)

## Operating Environment Indicators

	2007	2006	2005
Brent crude (\$/barrel)	72.52	65.14	54.38
Exchange rate (\$/ €)	1.370	1.255	1.245