Cepsa posts an adjusted net profit of €754 million for 2018

- **The Company's integrated business model enabled it to offset lower refining margins with higher profits in Exploration and Production**
- **Organic free cash flow was €536 million in 2018**
- **Investments in the period exceeded €2.2 billion, most of which was allocated to an important investment in several crude oil production fields in Abu Dhabi**

Cepsa’s adjusted net profit for 2018, excluding non-recurring items and calculating variation in inventories at replacement cost (Clean CCS), was €753.7 million, compared to €884 million in 2017.

Applying International Financial Reporting Standards (IFRS), and calculating changes in inventory at average purchase unit cost, accumulated net income for the period was €830.2 million, the highest in a decade and 12% higher than the previous year.

Organic free cash flow, excluding €1.4 billion invested in exploration and production assets, was €536 million.

Cepsa's integrated business model allowed it to achieve solid results, with higher profits in Exploration and Production largely offsetting lower results in Refining. Efficiency and cost saving programs implemented by the Company in recent years also made a significant contribution.

Activity in the Exploration and Production business in 2018 was particularly noteworthy, with major investments, agreements and contracts awarded in various countries.

Over the year the price of benchmark Brent crude oil increased by 31%, and averaged $71.0 per barrel.

The positive impact of this price increase on our results was partially offset by the appreciation of the euro against the dollar (+5%), with an average exchange rate in 2018 of $1.18/€, as well as a fall in refining margins. Cepsa's refining margin indicator stood at $6.10/bbl in 2018, compared to $7.50/bbl for the same period last year. Despite this, the refineries registered a 91% utilization rate in 2018.

The Company's turnover was €24.7 billion in 2018, 19% higher than in 2017. Over the year investments totaled €2.25 billion and net debt was €3.1 billion, with a net debt/EBITDA ratio of 1.8.

Of particular note among these investments was the agreement reached with ADNOC which saw Cepsa secure a 20% share of a new offshore concession contract in Abu Dhabi.

In addition, the Company continued its focus on improvement in safety and environmental management, reducing the Lost Workday Injury Frequency ratio of accidents resulting in sick leave per million hours worked for the eight consecutive year to 0.9 in 2018, and lowering CO_2 emissions per ton produced by 0.6%.

ANALYSIS BY BUSINESS AREA

Exploration & production

Adjusted Net Profit for the Exploration & Production business increased by 60% compared to 2017, reaching €232 million.

Strong results were due in part to the higher prices of crude oil produced and marketed by Cepsa, which averaged $67.20/barrel in 2018, up from $52.60/barrel in 2017.

Efficiency and cost reduction programs implemented by the Company in recent years also made a significant contribution to the business area's solid results.

Working interest production amounted to 83,300 barrels/day, 10% lower than in 2017, mainly due to the natural and expected decline of certain fields.

During this period, 14.2 million barrels of crude oil were sold, an increase on the 13.5 million of the previous year.

The Company continued to boost its growth in Exploration and Production, with a total investment of €1.65 billion, which will continue to strengthen its integrated business model. The main highlights of the year included:

Abu Dhabi:

Under the framework of a new alliance with ADNOC, Cepsa secured a 20% stake in the concession of the SARB and Umm Lulu fields, as well as two smaller ones: Bin Nasher and Al Bateel, all located in shallow waters off the Abu Dhabi coast. This is a 40-year concession for which Cepsa contributed $1.5 billion as an initial participation fee.

Algeria:

The signing, together with Sonatrach and Alnaft (Algerian National Agency), of a new concession contract for the development of the Rhoude el Krouf field (RKF) in Algeria. The goal of this new 25-year agreement is to significantly increase the extraction of crude oil and produce liquefied petroleum gas (LPG) at this field for the first time employing the latest hydrocarbon recovery techniques.

Furthermore, the Company has increased its stake in the Bir el Msana (BMS) field in Algeria to 75% from 45%, following the acquisition of Petronas' stake in the operation.

And lastly, Cepsa, together with its partners Sonatrach and Total, started production at the Timimoun gas field, which is expected to produce five million cubic meters of gas per day at peak production. Cepsa's stake in this field is 11.25%.

Latin America:

Cepsa was awarded, alongside Pemex and Deutsche Erdoel Mexico, three hydrocarbon exploration blocks in Mexico. The three areas are in shallow waters in the Tampico-Misantla basin in the Gulf of Mexico, where Cepsa will have a 20% stake.

Refining

The increase in the price of crude oil and the weakness of the U.S. dollar affected the Clean CCS net profit of this business area, which fell to €259 million in 2018 from €481 million in 2017.

In 2018, 160.9 million barrels of crude oil were distilled, with an average 91% distillation utilization capacity at the refineries and production of 21.8 million tons of petroleum derivatives, in line with the previous year.

Cepsa also maintained its investment levels, designating €392 million to projects covering maintenance, improved efficiency and conversion at its refineries. These investments include the start-up of the optimization project of the aromatics plant at the La Rábida refinery in Huelva, with an investment of over €45 million, which enabled Cepsa to improve efficiency and the integration of its refining and chemical facilities at Palos de la Frontera (Huelva).

During this period, various scheduled maintenance shutdowns were carried out on several units at the refineries of La Rábida (Huelva), Gibraltar-San Roque (Cadiz) and Asesa (Tarragona) refineries.

In 2018, Cepsa's Board of Directors approved the Bottom of the Barrel project at the Gibraltar-San Roque refinery, with a budget of €930 million. The project aims to improve the plant's competitiveness and increase the refining margin.

Following the construction of its first wind farm in Jerez de la Frontera (Cadiz), Cepsa now operates in renewables, helping it to diversify its energy and business model. The wind farm has a capacity of 28.8 MW distributed among 11 wind turbines.

Marketing

In 2018, the Marketing business area saw a Clean CCS result of €189 million, slightly higher than the €182 million registered in 2017).

Over the year, the Company invested €101 million in this business to maintain successful operations and strengthen market share in its distribution channels.

Sales in the Marketing segment amounted to 21.9 million tons, in line with the previous year. This includes sales at the service station network, marketing of fuels through wholesale channels, marketing of jet fuels for the aviation market, sale of bunker fuels at Spain's main ports and, outside Spain, in Panama and Fujairah, as well as the sale of lubricants, asphalts and liquefied petroleum gases (LPG).

Under its expansion and diversification plan, the Company strengthened its product offering with the launch of Cepsa Hogar, which brings together natural gas, electricity and fuel in a single package for the end consumer.

Chemicals

Cepsa's chemicals business contributed €111 million to the net Clean CCS result in 2018, in line with the previous year.

The surfactants business line (LAB, the raw material for biodegradable detergents where Cepsa is world leader, and fatty alcohols) performed in line with expectations, although slightly below the previous year due to costs arising from the first months of activity at the alcohols plant in Dumai (Indonesia).

Meanwhile, the Phenol-Acetone line (the raw material for next generation plastics, where Cepsa is the world's second largest producer) saw a similar result to the previous year.

Sales amounted to 2.9 million tons and investments for the business area stood at €80 million. These investments included the production expansion project at the Puente Mayorga chemical plant in San Roque (Cadiz), which will increase the plant's capacity to 250,000 tons of LAB from 200,000, and will involve the implementation of Detal technology, developed by Cepsa and UOP, to enable the plant to improve the quality of the product, increase efficiency and reduce emissions. The start-up is scheduled to take place in 2020.

Cash Flows

Operating cash flow, which reflects the group's cash generation capacity, was €1.2 billion in 2018, 7% higher than the previous year. Strong results from the Exploration & Production business, coupled with the lower utilization of working capital, offset the negative effect on cash generation resulting from lower refining margins.

With regards to cash flow from investments, the significant level of investments made in 2018 is worth highlighting, especially following the $1.5 billion investment to secure a 20% stake in the concession for the SARB and Umm Lulu fields.

As a result of this significant level of investment, and despite strong operating cash flow, free cash flow before dividends was minus €850 million euros at the end of 2018, compared to €483 million euros in 2017.

Millions of euros

Q4 2018	Q3 2018	Q4 2017		FY 2018	FY 2017
377	386	272	Clean CCS Cash Flow from operating activities before changes in working capital	1,502	1,638
(165)	(73)	75	Changes in working capital	(338)	(547)
212	**313**	**347**	**Operating Cash Flow**	**1,164**	**1,092**
(215)	(235)	(170)	Investments	(2,115)	(715)
15	49	83	Divestments	101	107
(200)	**(187)**	**(88)**	**Cash Flow from investing activities**	**(2,014)**	**(608)**
12	**126**	**260**	**Free cash flow before dividends**	**(850)**	**483**
(190)	-	(190)	Shareholder dividends	(351)	(332)
(11)	(27)	-	Minority dividends	(37)	(8)
(188)	**100**	**70**	**Free cash flow after dividends**	**(1,238)**	**144**

Analysis of Financial Debt

In 2018, Cepsa's net debt increased by €1.4 billion euros to finance investments. Leverage (measured as net debt/net debt + equity) stood at 35.8%, with a Net Debt/EBITDA ratio of 1.8.

Millions of euros

	FY 2018	FY 2017
Non-current bank borrowings	2,956	1,628
Current bank borrowings	380	639
Cash and cash equivalents	(247)	(546)
Net Debt	***3,089***	***1,722***
Equity	***5,542***	***5,026***
IFRS Capital Employed (ND + E)	***8,632***	***6,748***
Gearing Ratio (ND / (ND + E))	**35.8%**	**25.5%**

Key Indicators

Millions of euros

Q4 2018	Q3 2018	Q4 2017	Q4 2018 vs Q4 2017		FY 2018	FY 2017	FY 2018 vs FY 2017
6,361	6,674	5,562	14%	Revenues	24,712	20,817	19%
517	469	422	22%	Clean CCS Operating Result (EBITDA)	1,746	1,874	(7%)
41	*66*	*39*	*5%*	*Exploration and Production*	*232*	*145*	*60%*
95	*72*	*111*	*(14%)*	*Refining*	*259*	*481*	*(46%)*
65	*49*	*25*	*164%*	*Marketing*	*189*	*182*	*4%*
35	*16*	*25*	*42%*	*Petroquemicals*	*111*	*111*	*0%*
(13)	*(8)*	*(7)*	*86%*	*Corporation*	*(37)*	*(34)*	*7%*
223	**196**	**193**	**16%**	**Clean CCS Net Income**	**754**	**884**	**(15%)**
(28)	24	29	(195%)	CCS adjustment: Replacement cost valuation	99	79	25%
(26)	(0)	(158)	(84%)	Non-recurring items	(23)	(220)	(90%)
170	**219**	**64**	**167%**	**IFRS Net Income**	**830**	**743**	**12%**
0.42	0.37	0.36	16%	Clean CCS Earnings per Share (1)	1.41	1.65	(15%)
12.5%	12.0%	14.5%	(14%)	Clean CCS ROACE	12.5%	14.5%	(14%)
1.14	1.16	1.18	(3%)	€/$ Exchange rate	1.18	1.13	5%
67.8	75.3	61.4	10%	Brent price average ($/b)	71.0	54.3	31%
6.9	6.7	6.6	5%	Refining margin ($/b)	6.1	7.5	(19%)

(1) During 2018 there was a share split (x2). For comparative basis for 2017 the current number of shares is used.

Non-financial information

Cepsa increased its headcount by 3% in 2018, with over 10,000 direct jobs in over 20 countries.

With regards to Safety, there was a notable decrease in the number of lost time accidents from 25 in 2017 to 16 in 2018. This was the eighth consecutive annual decline, taking the ratio to less than one accident per million hours worked.

Turning to greenhouse gas (GHG) emissions, though the total volume rose by 0.3% due to the Company's increased activity, the ratio of CO_2 per ton produced fell 0.6% as a result of efficiency measures implemented.

Other performance figures	2018	2017
Number of employees	**10,153**	9,837
Female workers	**36%**	36%
Employees with permanent contract	**89%**	91%
Hours of training [1]	**273,515**	208,562
Number of occupational accidents resulting in leave [2]	**16**	25
Local contracting	**45%**	50%
GHG emissions (Scope 1 y 2) (thousands of tCO2eq) [3]	**7,263**	7,241

[1] Data for Belgium, Brazil, Canada, China, Colombia, Italy, Netherlands, Portugal, Spain and United Kingdom.
[2] Accidents resulting in temporary incapacity for work, permanent incapacity or death. In-house personnel data.
[3] The data from 2017 have suffered modifications with respect to those previously published, due to the revision of some of the criteria and their re-estimation.

As part of its General Corporate Responsibility policy, the Company has committed to help to meet the United Nations Sustainable Development Goals (SDGs) for 2030. In order to fulfill this commitment, Cepsa identified six priority SDGs in 2018 where it would focus its contribution as a global energy company. These are: Affordable and clean energy (no. 7), Decent work and economic growth (no. 8), Industry, Innovation, and Infrastructure (no. 9), Responsible consumption and production (no. 12), Climate action (no. 13) and Peace, justice and strong institutions (no. 16).

Cepsa is a global energy company, which operates in an integrated manner throughout the value chain stages of hydrocarbons, in addition of the manufacture of products from raw materials of plant origin and having a presence in the renewable energy sector. Mubadala Investment Company, one of the largest sovereign wealth funds in the world, is the only shareholder.

Cepsa's experience spans more than 89 years, and its team of over 10,000 professionals offer technical excellence and a capacity for adaptation. It has a presence on all five continents through its business areas of Exploration and Production, Refining, Marketing and Chemicals.

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