Annual Accounts and Directors' Report

2015

Contents

1. Balance sheet

Assets

Balance sheet at 31 December 2015

Units: Thousand euro

	Note	2015	2014
NON-CURRENT ASSETS		**84,199**	**107,847**
Intangible assets	**5.5**	**10**	**21**
Computer software and patents and trademarks		10	21
Property, plant and equipment	**5.6**	**29,688**	**32,465**
Plant and other assets		29,688	32,465
Non-current financial investments	**5.7-9-10**	**54,501**	**75,361**
Derivatives	5.7-10	54,448	75,308
Other financial assets	5.7-9	53	53
CURRENT ASSETS		**2,338,444**	**2,046,387**
Inventories	**5.11**	**1,986,861**	**1,990,296**
Strategic reserves		1,986,861	1,990,296
Trade and other receivables	**5.7-9**	**93**	**154**
Trade receivables from associates		1	24
Sundry receivables	5.7-9	2	1
Personnel	5.7-9	64	80
Current tax assets	5.18	-	46
Other receivables from public administrations	5.18	26	3
Current financial investments	**5.8**	**443**	**19,000**
Debt securities	5.8	-	19,000
Derivatives	5.7-10	443	-
Current prepayments and accrued income		**43**	**2**
Cash and cash equivalents	5.12	**351,004**	**36,935**
Cash		351,004	36,935
Total Assets		**2,422,643**	**2,154,234**

Notes 5.1 through 5.26 form an integral part of the annual accounts for the year ended 31 December 2015.

Liabilities

Balance sheet at 31 December 2015

Units: Thousand euro

	Note	2015	2014
EQUITY		**235,446**	**246,900**
Capital and reserves:		**197,173**	**194,979**
Share capital	**5.13**	**-**	**-**
Reserves	**5.14**	**194,979**	**189,676**
Special reserves		135,717	130,437
Statutory reserves		59,262	59,239
Profit/(loss) for the year	**5.15**	**2,194**	**5,303**
Measurement adjustments:		**38,273**	**51,921**
Hedging operations		38,273	51,921
NON-CURRENT LIABILITIES		**1,779,149**	**1,818,556**
Non-current borrowings	**5.7-16**	**1,766,391**	**1,801,250**
Debentures and other marketable securities		1,098,361	1,103,102
Bank borrowings		668,030	698,148
Deferred tax liabilities	**5.10-18**	**12,758**	**17,306**
CURRENT LIABILITIES		**408,048**	**88,778**
Current borrowings	**5.7-16**	**383,394**	**63,460**
Debentures and other marketable securities		349,809	-
Bank borrowings		33,573	63,460
Other financial liabilities		12	-
Current payables to associates	**5.7-16**	**8,054**	**10,078**
Trade and other payables		**16,600**	**15,240**
Suppliers, associates	**5.7-16**	137	137
Payables	**5.7-16**	14,696	12,608
Current tax liabilities	5.18	29	6
Other payables to public administrations	5.18	1,738	2,489
Total equity and liabilities		**2,422,643**	**2,154,234**

Notes 5.1 through 5.26 form an integral part of the annual accounts for the year ended 31 December 2015.

2. Income statement

For the year ended 31 December 2015

Units: Thousand euro

	Note	2015	2014
A) CONTINUING OPERATIONS			
1. Revenues	**5.19**	**170,671**	**184,569**
a) Sales		3,322	6,694
b) Services rendered		167,349	177,875
2. Changes in inventories of finished goods and work in progress	**5.11-19**	**(3,435)**	**(3,699)**
4. Personnel expenses	**5.19**	**(3,501)**	**(3,449)**
a) Wages, salaries and similar remuneration		(2,465)	(2,356)
b) Employee benefits		(1,036)	(1,093)
5. Other operating expenses	**5.21**	**(140,784)**	**(146,930)**
a) External services		(140,845)	(146,756)
b) Taxes		(17)	(56)
c) Losses, impairment and changes in trade provisions	5.9	78	(118)
6. Asset depreciation/amortization	**5.5-6**	**(2,803)**	**(2,801)**
7. Profit/(loss) obtained on the disposal of assets	**5.6**	**-**	**(1)**
8. Other results		**-**	**(36)**
A.1) OPERATING PROFIT		**20,148**	**27,653**
9. Financial income	**5.20**	**137**	**29**
b) Traded securities and other financial instruments		137	29
b2) Third parties		137	29
10. Financial expense	**5.20**	**(18,061)**	**(22,372)**
b) Amounts owed to third parties		(18,061)	(22,372)
11. Differences on exchange	**5.20**	**(1)**	**(1)**
A.2) FINANCIAL INCOME/EXPENSE		**(17,925)**	**(22,344)**
A.3) PROFIT/(LOSS) BEFORE TAXES		**2,223**	**5,309**
12. Corporate income tax	**5.18**	**(29)**	**(6)**
A.4) PRIOR YEAR RESULTS FROM CONTINUING OPERATIONS		**2,194**	**5,303**
Profit for the year		**2,194**	**5,303**

Notes 5.1 through 5.26 form an integral part of the annual accounts for the year ended 31 December 2015.

3. Statement of changes in equity

For the year ended 31 December 2015

A) Statement of recognized income and expense

Units: Thousand euro

	Note	2015	2014
Profit/(loss) for the year	**5.15**	**2,194**	**5,303**
Income and expenses attributed directly to equity		**20,349**	**36,009**
Cash flow hedges	5.10	27,134	48,012
Tax effect	5.18	(6,785)	(12,003)
Amounts transferred to the income statement		**(33,997)**	**(35,514)**
Cash flow hedges		(45,330)	(47,353)
Tax effect		11,333	11,839
Total recognized income and expense		**(11,454)**	**5,798**

B) Statement of total changes in equity

Units: Thousand euro

	Reserves	Profit/(loss) for the year	Measurement adjustments	TOTAL
ENDING BALANCE 2013	**188,962**	**714**	**51,426**	**241,102**
Total recognized income and expense	**-**	**5,303**	**495**	**5,798**
Transactions with shareholders and owners:	**714**	**(714)**	**-**	**-**
Distribution of prior year results	714	(714)	-	-
ENDING BALANCE 2014	**189,676**	**5,303**	**51,921**	**246,900**
Total recognized income and expense	**-**	**2,194**	**(13,648)**	**(11,454)**
Transactions with shareholders and owners:				
Distribution of prior year results	**5,303**	**(5,303)**	**-**	**-**
Ending balance 2015	**194,979**	**2,194**	**38,273**	**235,446**

Notes 5.1 through 5.26 form an integral part of the annual accounts for the year ended 31 December 2015.

.

.

4. Cash flow statements

For the year ended 31 December 2015

Units: Thousand euro

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		**8,766**	**10,663**
Profit/(loss) before taxes	5.15	2,223	5,309
Adjustments		**20,650**	**25,300**
Asset depreciation/amortization		2,803	2,801
Impairment adjustments		(78)	118
Change in provisions		-	-
Profit/(loss) obtained on the disposal of assets		-	1
Financial income		(137)	(29)
Financial expense		18,061	22,372
Exchange differences		1	1
Other income and expense		-	36
Changes in working capital		**4,745**	**2,936**
Inventories		3,435	3,699
Loans and other receivables		15	5,612
Trade and other payables		1,336	(6,009)
Other current assets and liabilities		(41)	(366)
Other cash flows from operating activities		**(18,852)**	**(22,882)**
Interest paid		(19,029)	(22,713)
Interest received		137	29
Corporate income tax income/(expense)		40	(198)
CASH FLOWS FROM INVESTING ACTIVITIES		**18,985**	**(19,076)**
Investment yields		**19,000**	**47**
Other financial assets		19,000	47
Amounts paid on investments		**(15)**	**(19,123)**
Intangible assets			(2)
Property, plant and equipment		(15)	(121)
Other financial assets			(19,000)
CASH FLOWS FROM FINANCING ACTIVITIES		**286,318**	**44,945**
Payments made and received for financial liability instruments		**286,318**	**44,495**
Issue:			
Debentures and other marketable securities		346,419	250,000
Bank borrowings		-	151,939
Borrowings from the Group		-	4,519
Return and repayment of:			
Debentures and other marketable securities		-	(1,619)
Borrowings from the Group		-	-
Bank borrowings		(60,101)	(359,894)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**314,069**	**36,532**
Cash and cash equivalents at beginning of the year		36,935	403
Cash and cash equivalents at end of the year		351,004	36,935
Change in cash or cash equivalents		314,069	36,532

Notes 5.1 through 5.26 form an integral part of the annual accounts for the year ended 31 December 2015.

.

.

5. Notes to the annual accounts for 2015

5.1. General information

a. Background and corporate purpose

Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) commenced operations on 6 July 1995 in accordance with the provisions of Law 34/1992 (22 December), on the Oil Sector and Royal Decree 2111/1994 (28 October), which regulates the obligation to maintain minimum oil security stocks and creates the Strategic Reserve Corporation.

Law 34/1998 (7 October) on the Hydrocarbon Sector and Royal Decree 1716/2004 (23 July), which regulates the obligation to maintain minimum security stocks, defines CORES in substantially the same manner as in the preceding law mentioned above and establishing its legal purpose as the acquisition, creation, maintenance and management of hydrocarbon reserves, including natural gas, as determined by regulations, notwithstanding other legal duties such as:

a) The identification, verification, accounting and control of the reserves defined by Law 34/1998 and any enabling regulations, including commercial reserves and the Ministry of Industry, Energy and Tourism must be informed at least monthly of the levels of reserves stored by the obligated parties and operators.

b) Establish a detailed and permanently up-to-date inventory of all emergency reserves in storage, excluding any specific reserves. This inventory will specifically include the information necessary to locate the tank, the refinery or the storage facility holding the reserves in question, as well as the amount, the owner and the nature of the reserve in accordance with the categories defined by mandatory European Union Law and any applicable at any given moment. This information must be kept for five years.

The Ministry of Industry, Energy and Terrorism may require the Corporation to provide this inventory at any time within a deadline of 10 days.

Before 31 January of each year a summarized version of this inventory must be sent to the Ministry of Industry, Energy and Tourism indicating at least the amounts and the nature of the emergency reserves included in the inventory on the last day of the immediately preceding calendar year.

c) Permanently publish complete information, classified by product category, regarding the volume of the reserves at the Corporation can guarantee for obligated parties, other financial operators or other central storage facilities. Before 31 May of each year the conditions under which reserve storage services on behalf of obligated parties will be offered must be published.

d) Acquire or sell, on an exclusive basis, the specific reserves that may be established by order of the Ministry of Industry, Energy and Tourism.

e) Create, maintain and manage reserves on behalf of financial operators or obligated parties in accordance with the terms established by regulations. The reserves that are fully available by virtue of lease agreements cannot be assigned or leased to third parties in any manner whatsoever.

f) Calculate and verify the total levels of equivalent oil reserves and product amounts that are permanently maintained by the Kingdom of Spain, calculated in both days of average daily net imports as well as average daily internal consumption days for the year of reference in accordance with European regulations and the obligations deriving from International Treaties to which the Kingdom of Spain is a party.

The Ministry of Industry, Energy and Tourism must be sent statistics regarding hydrocarbons as established by the relevant regulations.

g) Make a proposal to the Ministry of Industry, Energy and Tourism regarding the actions and measures intended to implement and update hydrocarbon market supply security obligations in accordance with the international commitments assumed by the Kingdom of Spain.

h) Cooperate with the various Public Institutions in order to provide information, advisory services and any other activity with respect to those aspects of its competency in the hydrocarbon sector, in particular the review of the degree to which Spain is prepared and reserves stored for emergencies.

i) Those duties relating to the security of supplies in the hydrocarbon sector mandated by the Ministry of Industry, Energy and Tourism.

Law 34/1998 (7 October) on the hydrocarbon sector has been developed by Royal Decree 1716/2004 (23 July), which provides detailed regulations regarding the obligation to maintain minimum oil and natural gas security supplies and the obligation to diversify supplies of natural gas, and it establishes the legal system applicable to the Corporation and the Appendix approves its bylaws.

This year of 2015 was particularly relevant to CORES in terms of its functions and regulations given that its legal system was modified to include the possibility that the Corporation may maintain part of the strategic natural gas stocks, in addition to the oil products that it has held since its creation. Although the relevant enabling regulations will be necessary to determine the specific level of strategic natural gas reserves that CORES must maintain, Law 8/12015 (21 May) amended Law 34/1998 (7 October) on the Hydrocarbon Sector which, by recognizing CORES as another member of the gas system, enables the legal structure that is necessary so that it can maintain part of the natural gas reserves. Royal Decree 984/2015 (30 October) enables this legal amendment and regulates the organized gas market and access to natural gas system facilities and establishes similar terms for CORES in the natural gas system, in addition to introducing other amendments established by Royal Decree 1716/2004.

a. Brief description of the legal system governing CORES

In accordance with Article 52 of Law 34/1998 on the hydrocarbon sector, CORES is a public law non-profit corporation operating in the general interest and under the private law system, and it has its own legal personality. When carrying out its activities, the Corporation falls within the authority of the General State Administration through the Ministry of Industry, Energy and Tourism.

Article 28 of Royal Decree 1716/2004 replies the following with respect to the keeping of accounting records:

> “Article 28 Accounting and audit
> 1. Corporación de Reservas Estratégicas de Productos Petrolíferos shall be governed by mercantile law regulations with respect to keeping accounting records, official records and accounting documents.
>
> 2. The annual accounts, consisting of the balance sheet, income statement and notes to the annual accounts, as well as the Directors' Report, must be audited by an independent expert before being approved.
>
> 3. Once the annual accounts have been approved, they must be sent to the Ministry of Industry, Energy and Tourism within three months."

The Corporation is subject to the authority of the General State Administration, without being integrated into the hierarchy of, and/or depending on that State Administration, and this is a mechanism that allows for the control of the legality of action taken by the governing bodies of CORES by a veto of any resolutions that may violate the law or general interests, exercised by the Ministry of Industry, Energy and Tourism, through the Chair of CORES.
Operators authorized to distribute wholesale petroleum products, including liquid petroleum gases, and natural gas operators are required to be members of CORES, as is stipulated by Article 6 of the Corporation's bylaws as approved by an Appendix to Royal Decree 1716/2004.

Since the time Royal Decree-Law 15/2013 (13 December) entered into force, its Final Provision One amended Articles 50, 51 and 52 of Law 34/1998 (7 October) on the Hydrocarbon Sector, and CORES is the "central storage entity" in Spain for the purposes of the provisions of Article 7 of Council Directive 2009/119/EC (14 September 2009).

Its financing mechanisms consist of the following in accordance with Article 52 of Law 34/1998, Article 24 and subsequent of Royal Decree 1716/2004 and Article 13 of its bylaws, approved through an appendix to that Royal Decree: (i) the membership payments collected from the parties that are required to maintain minimum oil and natural gas products security supplies and (ii) financial markets.

In order to create and maintain the strategic supplies, as well as the remaining activity that the aforementioned legislation assigns to the Corporation, and in accordance with the provisions of Article 52.7 of Law 34/1998, Articles 25 and 26 of Royal Decrease 1716/2004, an order issued by the Ministry of Industry, Energy and Tourism will establish unit fees for each calendar year by product group which, by metric ton, cubic meter sold or consumed, and to be paid in proportion to the number of days of strategic supplies or, if appropriate, the minimum-security supplies, maintained by the Corporation, that must be paid to CORES by the parties that are obligated to maintain minimum oil product security supplies, as well as the market participation annual fees payable by the parties required to maintain minimum security supplies of liquid petroleum gases and natural gas, and to diversify natural gas supplies.

The proposal for setting these fees, which must be approved by the Board of Directors of CORES, in accordance with the provisions of its bylaws and presented to the General Assembly, is prepared based on the budget that the Corporation must prepare in accordance with the aforementioned Article 26 of Royal Decree 1716/2004.

Based on the budget prepared for 2015 and approved by the Board of Directors on 26 November 2014, Order ITC/2470/2012 (29 December), (BOE No. 315 dated 30 December), approved the fees payable to the Corporation in 2015.

In accordance with Article 26 of the Royal Decree, once the annual fees are approved Corporacion de Reservas Estrategicas may request the Directorate General for Energy and Mining Policy to adjust them upwards or downwards by a maximum of 5%, after providing supporting documentation for the request.

During 2015 changes were made to some of the assumptions taken into account in the Corporation's Budget for 2015, which was used as the basis for the approval of the fees for 2015 in the aforementioned Order.

The evolution of sales over the course of the year performed better than expected within the scenario of the recovering Spanish economy. Growth totalling 0.3% was used as a sales growth forecast in the 2015 budget, in line with the positive trend that started in 2014 after six years of negative sales growth rates. However, throughout 2015 the growth rate accelerated and this gave rise to an upward revision of the forecast for 2015 to 4.2% compared with the 0.3% initially budgeted.

There was also a notable reduction in the budgeted financial expenses and the cost of maintaining strategic reserves fundamentally as a result of the downward movement in benchmark interest rates applied by European monetary authorities and the policy of covering storage capacity needs through capacity auctions and in 2015 there was high capacity availability in the market which resulted in advantageous conditions for held-to-maturity contracts.

As a result of the above, there was a surplus in the amounts collected compared with the cost of business that gave rise to a budget review that was carried out in September and resulted in a downward modification of the instalment payments that had to be made to CORES in 2015 based on sales or consumption starting in September 2015, except for those relating to liquid petroleum gas and natural gas, which remained unchanged.

Order ITC/1981/2015 (30 September), (BOE No. 235, 1 October), thus published the manner to reduce the fees payable to CORES for the auto and aviation gasoline groups, automotive diesel, other diesels, aviation kerosene and other kerosenes as well as fuel oils.

5.2. Basis of presentation

a. Fair presentation

The accompanying annual accounts have been prepared on the basis of the Corporation's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 (16 November), and the amendments made by Royal Decree 1159/2010 (17 September), so as to present fairly the Corporation's equity, financial situation and results and accurately cash flow in the cash flow statement.

The Annual Accounts consist of the balance sheet, the income statement, statement of changes in equity, cash flow statement and these notes to the annual accounts, which together form a single unit. For a better understanding they are all presented in thousand euro.

b. Non-mandatory accounting principles

The management of the Corporation consulted the Accounting and Audit Institute (ICAC) regarding the accounting classification and possible measurement adjustments for strategic reserves and the following conclusions have been reached based on the response dated 23 January 1996.

- The strategic reserves "must be stated on the asset side of the balance sheet as inventories".
- Due to the fact that the Corporation cannot dispose of its inventories at a price lower than acquisition cost, in accordance with Royal Decree 1716/2004, "it will not be necessary to apply any measurement adjustments that may be revealed. To the fact that market prices are lower than acquisition costs". In the event that the selling price or the value of the swapped item is less than the average

weighted cost of acquisition, authorisation would be required from the Ministry of Industry, Energy and Tourism.

- The notes to the Corporation's Annual Accounts must reflect all these situations in order to obtain a true and fair view of its equity, results and financial situation.

c. Key aspects of the measurement and estimation of uncertainty

The preparation of the annual accounts requires the Corporation to apply certain forward-looking estimates and judgments that are evaluated on a continuous basis and are based on past experience and other factors, including expectations of future events that are deemed to be reasonable under current circumstances. The resulting accounting estimates will seldom equal the related actual results.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of derivatives or other financial instruments

The Corporation has contracted an independent third party to measure its interest rate financial swaps. This measurement is reviewed on a quarterly basis using a method consisting of discounting market interest rates by the difference with the swap rates and assumptions are applied that are primarily based on existing market conditions at each measurement date.

d. Application of International Accounting Standards

Since in 2003 the Corporation issued ordinary bonds in the amount of €350 million, and with respect to the possible application of International Financial Reporting Standards (IFRS) by the Corporation, the Board of Directors unanimously adopted a resolution at a meeting held on 15 June 2006 to consult the Accounting and Audit Institute (ICAC).

On 28 June 2006 the Institute was presented with a document providing all of the background which, in the opinion of the Corporation, is necessary to provide a response to the consultation as to whether International Financial Reporting Standards (IFRS) are applicable to the Corporation, therefore, whether it must adapt its accounts to meet IFRS criteria.

In the response dated 8 February 2007 the ICAC stated:

"In light of the above, and since the Institute understands that it must conclude that the consulting party, as it is not one of the indicated companies, is not subject to paragraph

16 of Article 200 of the Spanish Companies Act (*)". A report from the State Attorney at the Sub-secretariat of the Ministry of Finance was requested in order to ratify that position. That report concluded as follows:

“Given that the legal form of Corporación de Reservas Estratégicas de Productos Petrolíferos is not one of those indicated in Article 41 of the Commercial Code, but rather it is a public law corporation, the provisions of paragraph 16 of Article 200 of the Spanish Companies Act (*) are not applicable".

5.3. Accounting policies

a. Intangible assets

Computer software

Software licenses acquired from third parties are capitalized based on their acquisition cost and preparation for use. These costs are amortized over their estimated useful life (5 years). Costs associated with maintaining computer software programs are recognized as an expense as incurred.

b. Property, plant and equipment

Property, plant and equipment is stated at acquisition price or production cost less accumulated depreciation and accumulated impairment losses recognized.

Own work capitalized is measured as calculated by adding to the price of the consumable materials used the direct or indirect costs attributable to the assets.

Costs incurred to extend, modernize or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is extended and it is possible to ascertain or estimate the carrying amount of the assets that have been replaced in inventories.

(*) Currently regulated by Article 525 of the Spanish Companies Act 2010.

The cost of major repairs is capitalized and depreciated over the estimated useful life of the asset, while recurring maintenance costs are charged to the income statement in the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. The depreciation rates applied based on estimated useful lives are as follows:

	%
Plant	5%
Other installations	6% - 10%
Furnishings	10%
Data-processing equipment	25%

The residual values and useful lives of assets are reviewed and adjusted, if necessary, at each balance sheet date.

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount.

Gains and losses on the disposal of property, plant and equipment are calculated by comparing the sale revenue with the carrying amount and are recognized in the income statement.

Financial expense directly attributed to the acquisition or construction of property, plant and equipment that requires more than one year to be prepared for use is stated at cost until they are in a state of operation.

c. Losses due to the impairment of non-financial assets

Assets subject to amortization/depreciation are subjected to in impairment tests provided that some event or a change in circumstances indicates that the book value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value less the higher of costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets that present an impairment loss are reviewed at each balance sheet date to determine whether or not the loss has reversed.

d. Swaps

When property, plant and equipment, intangible assets or property investments are acquired through swaps of a commercial nature, they are measured at the fair value of the asset delivered plus any monetary compensation paid in exchange, unless there is clearer evidence regarding the asset received and any applicable limits. For these purposes, the Corporation considers that a swap is of a commercial nature when the configuration of the cash flows relating to the asset received differs from the configuration of the cash flows relating to the asset delivered, or the present value of the cash flow after taxes relating to the activities affected by this swap are modified. Furthermore, any of the above differences must be significant with respect to the fair value of the exchanged assets.

If the swap is not of a commercial nature, or the fair value of the assets involved in the transaction cannot be determined, the asset received is measured at the carrying value of the delivered asset plus any monetary compensation provided, up to the limit of the fair value of the received asset, if less, and only if it is available.

When acquiring certain inventories, the corporation uses non-commercial swaps and therefore the asset received is measured at the carrying value of the delivered asset plus any monetary compensation provided, up to the limit of the fair value of the received asset, if less, and only if it is available.

e. Financial assets

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets except for assets maturing in more than 12 months of the balance sheet date, which are classified as non-current assets. Loans and receivables are included under "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost. Accrued interest is recognized at the effective interest rate, which is the discount rate that brings the instrument’s carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

At the year-end, at least, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Measurement adjustments, and reversals, where applicable, will be recognized in the income statement.

Financial assets held for trading and other financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are considered to be all those assets held for trading that are acquired with the intention of being sold in the short-term or which form part of an identified securities portfolio that is jointly managed to obtain short-term profits, as well as financial assets designated by the Corporation at initial recognition to be included under this category as it provides more relevant information. Derivatives are also classified as held for trading provided that they do not consist of a financial guarantee and have not been designated as hedging instruments.

These financial assets are measured, both initially and subsequently, at fair value and any changes affecting this value are taken to the income statement for the year. Directly attributable transaction costs are recognized in the income statement for the year.

Held-to-maturity assets

Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturity, that are traded on an active market and that Corporation management has the positive intention and ability to hold to maturity. If the Corporation disposes of a significant amount of the held-to-maturity assets, the entire category would be reclassified as available-for-sale. These financial assets are included under non-current assets, except for those that mature within 12 months as from the balance sheet date, in which case they are classified as current assets.

The measurement criteria applied to these investments are the same as for loans and receivables.

Available-for-sale financial assets

This category includes debt securities and equity instruments in other companies that have not been classified in any of the preceding categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

They are stated at fair value, and the changes that take place are recognised directly under equity, up until the asset is disposed of or becomes impaired, the time at which accumulated profits and losses accumulated in equity are charged against the income statement, provided that it is possible to calculate the aforementioned fair value. If this is not the case, they are stated at cost less impairment losses.

In the case of available for sale financial assets, adjustments are made if there is objective evidence of impairment as a result of a reduction or delay in estimated future cash flows in the case of acquired debt instruments or due to the lack of recovery of the carrying value of the asset in the case of equity investments. The adjustment is the difference between their cost or amortized cost less, if appropriate, any adjustment previously recognized in the income statement, and their fair value at the time at which measurement takes place. In the event that the equity instruments are measured at cost because their fair value cannot be calculated, the adjustment is determined in the same manner as for equity investments in group, multi-group and associated companies.

If there is objective evidence of impairment the Corporation records accumulated losses previously recognized under equity as a reduction in fair value. Impairment losses on equity instruments recognized in the income statement are not reversed through the income statement.

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Corporation establishes fair value by using measurement techniques which include the use of recent transactions between knowledgeable willing parties, reference to other instruments which are substantially identical, methods of discounting future cash flows and models for setting option prices by making maximum use of observable market data and relying as little as possible on the Corporation’s subjective considerations.

Financial assets are eliminated from the balance sheet when all risks and benefits inherent to ownership are substantially transferred. In the specific case of accounts receivable, the understanding is that this takes place in general when the risks of insolvency and default have been transferred.

Assets designated as hedged items are subject to hedge accounting measurement requirements.

Cash and cash equivalents

This balance sheet heading includes cash, sight deposits and other current highly liquid investments that can be quickly realized.

f. Financial derivatives and hedge accounting

Financial derivatives are measured, both initially and subsequently, at fair value. The method for recognizing the resulting gain or loss depends on whether the derivative has been designated to be a hedge instrument or not, and, if appropriate, the type of hedge. The Corporation designates certain derivatives as:

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized temporarily in equity. It is taken to the income statement in the years in which the projected hedge transaction affects profit and loss, unless the hedge relates to a planned transaction that ends in the recognition of a non-financial asset or liability, in which case the recorded amounts the amounts recorded under equity are included in the cost of the asset when acquired or the liability when it is assumed. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Fair value hedge

Changes in the fair value of derivatives that are designated and classified as hedges of fair value are recorded in the income statement together with any change in the fair value affecting the hedged asset or liability that is attributable to the hedged risk.

g. Inventories

Article 52.6 of Law 34/1998 stipulates: "In addition, the Corporation will recognize its inventories at the average weighted acquisition costs since its creation". In accordance with the transcribed legislation and the opinion of the ICAC as reflected in Note 5.2.b), the Corporation recognizes its "strategic reserves" at the average weighted acquisition cost and does not need to apply the measurement adjustments that may arise as a result of market prices being lower than the acquisition cost.

Royal Decree 1716/2004 establishes a series of restrictions on the disposal of inventories, as set out in detail below (Article 36):

- The Corporation may sell or swap excess inventories over the mandatory level, if any, upon the approval of the Board of Directors provided that any such sale, or transfer in the case of a swap, takes place at a price equal to the average weighted acquisition cost or market price, if higher.
- In any other case besides that indicated in the preceding paragraph, except for the provisions of Article 34.2 (transactions to maintain product quality), the sale or swap of strategic inventories by the Corporation will require the prior authorization of the Ministry of Industry, Tourism and Commerce.
- Under no circumstances may the sale or swap of strategic stocks by the Corporation alter competition conditions or the normal operation of oil product markets.

h. Financial liabilities

Borrowings and payables

This category includes trade and non-trade payables. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

Payables are initially recognized at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument’s carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Notwithstanding the above, loans for commercial operations maturing within one year, and which do not have a contractual interest rate, are stated, both at the time of initial recognition as well as subsequently, at their nominal value provided that the effect of not restating flows is not significant.

Should any existing liabilities be renegotiated, no substantial modification to financial liabilities is deemed to exist when the new lender is the same party that granted the initial loan and the present value of cash flows, including net commissions, does not differ by more than 10% of the present value of the cash flows pending payment with respect to the original liability calculated using the same method.

i. Current and deferred taxes

Income tax expense (income) is that amount of income tax that accrues during the period. It includes both current and deferred tax expense (income).

Both current and deferred tax expense (income) are recognized in the income statement. However, the tax effect of items recorded directly in equity is recognized under equity.

Current tax assets and liabilities are carried at the amounts that are expected to be payable to or recoverable from the tax authorities, in accordance with prevailing legislation or regulations that have been approved and are pending publication at the year end.

Deferred taxes are calculated in accordance with the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying values. However, if the deferred taxes arise from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on the tax or accounting gain or loss, they are not recognized. The deferred tax is determined by applying tax rates and tax legislation approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realized or deferred tax liability is settled.

Deferred tax assets are recognized insofar as future tax profits will probably arise against which to offset the temporary differences.

In accordance with Article 52.5 of Law 34/1998, the Corporation is exempt from corporate income tax with respect to the income deriving from the financial contributions made by its members. Similarly, any income that the Corporation may obtain as a result of the disposal of strategic inventories will be exempt from corporate income tax. This income cannot be distributed among members or used for loans or similar financial transactions with them. Corporate income tax expense for the year is therefore calculated based on reported profits before taxes, excluding the exempt income indicated in the preceding section, as adjusted upward or downward, as appropriate, by permanent differences arising with respect to taxable income, which is considered to be the tax base, less any tax credits or deductions and excluding any withholdings and prepayments made.

Based on the likelihood of obtaining future taxable income, the Corporation does not recognize tax-loss carry forwards yet to be applied.

j. Employee benefits

<u>Defined contribution pension plans</u>

A defined contribution plan is one under which the Corporation makes fixed contributions through its employees to a separate entity and does not have any legal, contractual or implicit obligation to make additional contributions if the independent entity does not have sufficient assets to satisfy the commitments assumed.

For defined contribution plans, the Corporation pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Corporation has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Corporation recognizes a liability for contributions payable when at the year-end it records accrued contributions not yet satisfied.

<u>Termination benefits</u>

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes these benefits when it has demonstrably undertaken to terminate employees' employment in accordance with a formal detailed plan that cannot be withdrawn, or to provide severance indemnities as a result of an offer made to encourage voluntary redundancy. Benefits which are not going to be paid within 12 months of the balance sheet date are discounted at present value.

k. Provisions and contingent liabilities

Provisions for legal claims are recognized when the Corporation has a present legal or constructive obligation as a result of past events; it is likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are carried at the present value of the payments that are expected to be necessary to settle the obligation, using a rate before taxes that reflects the evaluation of the current market for the temporary value of money and the specific risks relating to the obligation. Adjustments made to update the provision are recognized as a financial expense as they accrue.

Provisions maturing in one year or less, the financial effect of which is immaterial, are not discounted.

Where a part of the outflow necessary to settle the obligation is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset, provided collection is virtually assured.

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Corporation. These contingent liabilities are not recorded in the accounts but are described in the notes to the annual accounts.

l. Revenue recognition

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Corporation's activities, net of returns, rebates, discounts and value added tax.

The Corporation recognizes revenue when the amount may be reliably estimated, it is likely that the future economic benefits will flow to the Corporation and the specific conditions are fulfilled for each activity, as described below. A reliable calculation of the amount of revenue is not deemed possible until all sale-related contingencies have been resolved. The Corporation's estimates are based on historical results, taking into account customer type, transaction type and specific terms.

Rendering of services

The Corporation's income derives from the membership fees paid by operators. In accordance with the provisions of Royal Decrease 1716/2004, strategic stocks are financed by obligated parties defined in Article 7 (operators, distributors and consumers of liquid hydrocarbons), to the payment of a unit fee per metric ton or cubic meter sold or consumed.

To finance the Corporation's expenses for activities relating to liquid petroleum gases and natural gas, an annual fee will be established for the obligated parties defined in Article 8 (operators, distributors and consumers of LPG's) and Article 15 (marketers and consumers of natural gas), based on their participation in the market.

Sales revenues

The Corporation acquires and sells strategic stocks through purchase and sale tenders open to all of its members. The particular conditions will be established at the appropriate time and shall be decided based on previously established criteria denoting the best bid.

Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Corporation reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Interest income on loans that have become impaired is recognized using the effective interest rate method.

m. Leases

Operating leases

Leases under which the lessor maintains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are charged against the income statement for the year in which they accrue on a straight- line basis over the lease period.

n. Related-party transactions

The Corporation's Articles of Association, set out in the Chapter II, Article 6 of the Appendix to Royal Decree 1716/2004, “Members of CORES will necessarily include all wholesale petroleum product operators in Spain, including liquid gases, regulated by Article 42 and 45 of Law 34/1998 (7 October), as well as marketers of natural gas regulated by Article 58 a) and d) of that Law”. Membership is automatically obtained upon the party's report to the Ministry of Industry, Energy and Tourism that it has commenced operations.

Given the Corporation's nature and legal purpose, the obligated parties that are members of the Corporation and which are members of the Board of Directors are considered to be associated parties. These transactions are recognized at fair value.

o. Environmental assets

The expenses relating to the decontamination and restoration of polluted areas, the elimination of waste and other expenses deriving from compliance with environmental legislation are recognised as expenses for the year in which they are incurred, unless they relate to the cost of purchasing assets which enter into the Corporation's equity with the intention of being used on a lasting basis. In such cases the relevant items are recognised under the heading "Property, plant and equipment" and are depreciated using the same policies.

5.4. Financial risk management

a. Financial risk factors

The Corporation's activities are exposed to financial risks deriving from market risk, basically interest rate risk, credit risk and liquidity. The Corporation is not exposed to commodities price risk (Note 5.3.g) for exchange rate risk since it does not operate in any currency other than the euro. The Corporation's overall risk management program focuses on unpredictability of financial markets and seeks to minimize the potential adverse effects on its financial performance.

CORES' Board of Directors establishes the policy for managing financial risk. These guidelines are communicated by the President to the various areas of the business where the risks that may affect attaining the Corporation's business objectives are mainly concentrated.

<u>Market risk deriving from interest rate risk</u>

The cost of debt is significant within the Corporation's structure due to the high volume of borrowings that it maintains to finance the assets that are necessary to carry out its business and this is the reason behind the interest rate risk affecting that debt.

In order for the charging of this cost to operators to be as close to market costs as possible and, therefore, be recovered through the member instalments at all times, the Corporation's Board of Directors has established a policy of variable cost financing. This policy gives rise to variations in costs based on the evolution of interest rates and the macro-economic situation that determines the risk premium required by markets at any given moment.

The Corporation reduces risk through a conservative estimate of changes in rates and financial margins in its budget and by actively managing the diversification of instruments and maturity dates so that it can guarantee the amount it pays for the debt while simultaneously obtaining the most competitive cost at any given moment. If afterwards there is a very significant change in rates the Corporation may revise the budget and, in accordance with Royal Decree 1716/2004, apply an extraordinary instalment payment mechanism in order to guarantee its financial solvency.

Credit and liquidity risk

Credit risk derives from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as customers, including outstanding receivables and transaction commitments. The Corporation only operates with top tier banks and financial institutions that are of recognized solvency. Given the nature of the Corporation, this risk is not significant since the fees are invoiced and collected in the same month. As a result of the mandatory payment of the fees, as established in Law 34/1998 (7 October) on the hydrocarbon sector, the level of delinquencies is not relevant and therefore there are no outstanding significant receivables at the end of the year. The risk of non-payment for the Corporation is very low since if operators do not make the payments that are legally established this would be a serious or very serious infraction that could even give rise to a denial of their operator status.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

On an annual basis the Ministry of Industry, Energy and Tourism, after receiving a proposal from CORES based on a comprehensive income and expense budget for the relevant year, establishes the instalment payments that must be made by the members of CORES to maintain the strategic stocks and the primary purpose of these payments is to cover all of the Corporation's projected costs.

It should be noted that Article 25.3 of Royal Decree 1716/2004 provides that on an exceptional basis, when proper compliance with the Corporation's purpose so requires and in order to guarantee its financial solvency extraordinary fees may be established.

b. Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Corporation uses a variety of methods and develops assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as described in Note 5.2.c. The carrying amounts of trade receivables and payables are assumed to approximate their fair value.

5.5. Intangible assets

The breakdown and movements in the items included under “intangible assets” is as follows:

Units: Thousand euro

	Patents and trademarks	Computer software	TOTAL
Balance at 01-01-2015			
Cost	**12**	**110**	**122**
Accumulated amortization	**(6)**	**(95)**	**(101)**
Carrying amount	**6**	**15**	**21**
Disposals	-	(26)	(26)
Write-offs accumulated amortization	-	26	26
Amortization charge	(2)	(9)	(11)
Balance at 31-12-2015			
Cost	**12**	**110**	**122**
Accumulated amortization	**(8)**	**(104)**	**(112)**
Carrying amount	**4**	**6**	**10**

Units: Thousand euro

	Patents and trademarks	Computer software	TOTAL
Balance at 01-01-2014			
Cost	**12**	**108**	**120**
Accumulated amortization	**(3)**	**(82)**	**(85)**
Carrying amount	**9**	**26**	**35**
Additions	-	2	2
Amortization charge	(3)	(13)	(16)
Balance at 31-12-2014			
Cost	**12**	**110**	**122**
Accumulated amortization	**(6)**	**(95)**	**(101)**
Carrying amounts	**6**	**15**	**21**

In 2015 and 2014 no impairment losses were recorded relating to intangible assets. At 31 December 2015 intangible assets that have been fully amortized and are still in use total €55 thousand (€70 thousand in 2014).

5.6. Property, plant and equipment

The breakdown and movement in the items included under property, plant and equipment is as follows:

Units: Thousand euro

	Plant	Other installations	Furnishings	Data-processing equipment	TOTAL
Balance at 01-01-2015					
Cost	**52,182**	**255**	**189**	**221**	**52,847**
Accumulated depreciation	**(20,205)**	**(37)**	**(23)**	**(117)**	**(20,382)**
Carrying amount	**31,977**	**218**	**166**	**104**	**32,465**
Additions	-	-	5	10	15
Disposals	-	-	(3)	(16)	(19)
Write-offs accumulated depreciation	-	-	3	16	19
Deprecation charge	(2,707)	(25)	(20)	(40)	(2,792)
Balance at 31-12-2015					
Cost	**52,182**	**255**	**191**	**215**	**52,843**
Accumulated depreciation	**(22,912)**	**(62)**	**(40)**	**(141)**	**(23,155)**
Carrying amount	**29,270**	**193**	**151**	**74**	**29,688**

Units: Thousand euro

	Plant facilities	Other installations	Furnishings	Data-processing equipment	TOTAL
Balance at 01-01-2014					
Cost	**52,182**	**255**	**113**	**218**	**52,768**
Accumulated depreciation	**(17,499)**	**(12)**	**(7)**	**(107)**	**(17,625)**
Carrying amount	**34,683**	**243**	**106**	**111**	**35,143**
Additions	-	-	76	44	120
Disposals	-	-	-	(41)	(41)
Write-offs Accumulated depreciation	-	-	-	40	40
Deprecation charge	(2,707)	(25)	(16)	(50)	(2,798)
Balance at 31-12-2014					
Cost	**52,182**	**255**	**189**	**221**	**52,847**
Accumulated depreciation	**(20,205)**	**(37)**	**(23)**	**(117)**	**(20,382)**
Carrying amount	**31,977**	**218**	**166**	**104**	**32,465**

Plant mainly relates to the storage tanks in Cartagena and Puertollano.

In 2015 and 2014 no impairment adjustments have been recognized with respect to any item recognized under property, plant and equipment.

During 2015 property, plant and equipment with a gross value of €19 thousand (€41 thousand in 2014) and accumulated depreciation totalling €19 thousand (€40 thousand in 2014) was eliminated.

Property, plant and equipment that has been fully depreciated and is still in use totals €39 thousand (€60 thousand in 2014).

The Corporation has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

5.7. Analysis of financial instruments

a. Analysis by category

The carrying amount of each category of financial instruments stipulated in recognition and measurement standard "Financial Assets" is as follows:

Units: Thousand euro

	Loans, derivatives and other		Debt securities		**Total**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Non-current financial assets:						
Hedge derivatives	54,448	75,308	-	-	54,448	75,308
Loans and receivables	53	53	-	-	53	53
Total non-current	**54,501**	**75,361**	**-**	**-**	**54,501**	**75,361**
Current financial assets:						
Loans and receivables	67	105	-	-	67	105
Investments held-to-maturity	-	-	-	19,000	-	19,000
Hedge derivatives	443	-	-	-	443	-
Total current	**510**	**105**	**-**	**19,000**	**510**	**19,105**
Total financial assets	**55,011**	**75,466**	**-**	**19,000**	**55,011**	**94,466**

The carrying amount of each category of financial instruments stipulated in recognition and measurement standard "Financial liabilities" is as follows:

Units: Thousand euro

	Debentures and other marketable securities		Bank loans		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Non-current financial liabilities:								
Borrowings and payables	1,098,361	1,103,102	668,030	698,148	-	-	1,766,391	1,801,250
Total non-current	**1,098,361**	**1,103,102**	**668,030**	**698,148**	**-**	**-**	**1,766,391**	**1,801,250**
Current financial liabilities:								
Borrowings and payables	349,809	-	33,573	63,460	22,899	22,823	406,281	86,283
Total current	**349,809**	**-**	**33,573**	**63,460**	**22,899**	**22,823**	**406,281**	**86,283**
Total financial liabilities	**1,448,170**	**1,103,102**	**701,603**	**761,608**	**22,899**	**22,823**	**2,172,672**	**1,887,533**

b. Analysis by maturity date

The amounts of financial instruments with a maturity date that is certain or can be determined classified by the year of maturity at the end of 2015 are as follows:

Units: Thousand euro

	2016	2017	2018	2019	2020 and afterwards	Total
Sundry accounts receivable	2	-	-	-	-	2
Financial investments	443	-	50,590	-	3,858	54,891
Receivables from associates	1	-	-	-	-	1
Other financial assets	64	-	-	-	53	117
Total financial assets	**510**	**-**	**50,590**	**-**	**3,911**	**55,011**
Debentures and other marketable securities	349,809	-	500,000	-	598,361	1,448,170
Bank borrowings	33,573	-	-	125,000	543,030	701,603
Balances recorded with associates	8,054	-	-	-	-	8,054
Trade payables associates	137	-	-	-	-	137
Trade payables and other	14,708	-	-	-	-	14,708
Total financial liabilities	**406,281**	**-**	**500,000**	**125,000**	**1,141,391**	**2,172,672**

5.8. Financial assets held to maturity

As a result of the bond issue in October 2014 the Corporation had a temporary cash surplus at 31 December 2014.

On 1 December 2014, the Corporation invested the surplus in three short-term deposits totalling €19,000 thousand that mature on 1 April 2015 at an average interest rate of 0.3%.

5.9. Loans and receivables

The breakdown of loans and receivables at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

	2015	2014
Non-current loans and receivables	**53**	**53**
Non-current guarantee deposits	53	53
Current loans and receivables	**67**	**105**
Trade receivables from associates	924	1,025
Impairment of trade receivables	(923)	(1,001)
Sundry receivables	2	1
Personnel	64	80
Total loans and receivables	**120**	**158**

<u>Impairment adjustments arising from credit risk</u>

The Corporation does not believe that there are any measurement adjustments in addition to the indicated €923 thousand (€1,001 thousand in 2014), regarding any other item included in the above list of loans and current and non-current receivables.

Movements in adjustment accounts representing impairment losses in 2015 and 2015 are as follows:

Units: Thousand euro

	Balance at 01.01.14	Additions	Decreases	Balance at 31.12.14	Additions	Decreases	Balance at 31.12.15
Provision for bad debts	(883)	(118)	-	(1,001)	(7)	85	(923)

5.10. Derivative financial instruments

The breakdown of derivative financial instruments at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

	2015	2014
	Assets	**Assets**
Interest rate swaps – Cash flow hedges	50,590	69,228
Interest rate swaps – Fair value hedges	3,858	6,080
NON-CURRENT	**54,448**	**75,308**
Interest rate swaps – Cash flow hedges	443	-
CURRENT	**443**	**-**
Total	**54,891**	**75,308**

Financial hedge derivatives that are open at the end of 2015 are classified as non-current and current in accordance with their maturity date.

Interest rate swaps:

The notional principal on interest rate swaps outstanding at 31 December 2015 amounted to €1,100,000 thousand (€1,100,000 thousand in 2014).

The Corporation maintains to interest rate swap contracts deriving from the three bond issues that took place in 2008 for a total of €500,000 thousand, in 2013 for €350,000 thousand and in 2014 for €250,000 thousand (Note 5.16).

As a result of the Bond Issues that took place in 2008, the Corporation obtained three interest rate swaps from BBVA for a notional amount of €167,000 thousand, Societé Generale for a notional amount of €166,000 thousand and Unicredit for a notional amount of €167,000 thousand.

In turn, as a result of the Bond Issues that took place in 2013, the Corporation obtained three interest rate swaps from BBVA for a notional amount of €117,500 thousand, HSBC for a notional amount of €115,000 thousand and Crédit Agricole C. & I. B for a notional amount of €117,500 thousand.

Finally, as a result of the 2014 bond issue the Corporation signed two interest rate swaps with HSBC and Societé Generale for a notional amount of €125,000 thousand each.

These interest rate swaps have the financial effect of converting fixed interest rates on borrowings into variable interest rates (fair value hedges) and hedging the amounts payable by the operators (cash flow hedges).

The effective part of changes in the fair value of cash flow hedge derivatives has been temporarily recognized in equity under the heading "Measurement adjustments on hedging transactions" in the amount of €38,273 thousand, net of the tax effect (€51,921 thousand in 2014), while the fair value hedge derivatives are recognized in the income statement together with the changes in the fair value of the hedged liability (€2,222 thousand in 2015).

The tax effect totalling €12,758 thousand (€17,306 thousand in 2014) was recorded under the non-current liability heading "Deferred tax liabilities" (Note 5.18).

5.11. Inventories

The measurement of Corporation inventories at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

Product	2015	2014
Gasolines	98,293	98,400
Diesels and kerosenes	1,291,715	1,292,937
Fuel oils	20,226	21,463
Crude oils	576,627	577,496
Total inventories	**1,986,861**	**1,990,296**

All of the stocks maintained by the Corporation and 31 December 2015 and 2014 relate to Strategic Reserves.

At 31 December 2015 the market value of the Corporation's thoughts is higher than that recorded by around €13,445 thousand (€718,652 thousand in 2014).

5.12. Cash and cash equivalents

Cash and cash equivalents at 31 December 2015 and 2014, are as follows:

Units: Thousand euro

	2015	2014
Cash and cash equivalents	351,004	36,935
Cash and cash equivalents	**351,004**	**36,935**

As a result of the bond issue that took place in November 2015 (Note 5.16.k), the Corporation has a temporary cash surplus at 31 December 2015 which it will use to redeem the bonds that mature in 2016.

5.13. Share capital

The Corporation does not have share capital and therefore it does not have shareholders given that in accordance with its bylaws (Appendix to Royal Decree 1716/2004), the financial means that are necessary to carry out legal purpose are contributed by the obligated parties and, if appropriate, obtaining resources from financial markets.

Its members are required by law to join the Corporation from the start of their activity (wholesale distribution of petroleum products or the marketing of natural gas), but they do not have any ownership rights with respect to CORES.

5.14. Reserves

The breakdown of Reserves at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

	2015	2014
Special reserves	135,717	130,437
Statutory reserves	59,262	59,239
Total	**194,979**	**189,676**

a. Special reserves

These reserves derived from the disposal of strategic reserves which, in accordance with Article 52.5 of Law 34/1998, "any income that the Corporation may obtain as a result of the disposal of strategic stocks may not be distributed among members".

b. Statutory reserves

Article 13 of the Corporation's Bylaws (Appendix to Royal Decree 1716/2004) stipulates that in the event there is any excess amounts collected from these compared with expenses effectively incurred, the Board of Directors may agree to allocate a financial reserve until it reaches a minimum amount equivalent to one fourth of the ordinary expenses in the preceding year.

Accordingly, the Corporation's General Assembly held on 18 June 2015 approved, at the proposal of the Board of Directors, the application of profits obtained in 2014 by creating a Special Reserve in the amount of €5,280 thousand and a Statutory Reserve in the amount of €23 thousand.

5.15. Profit/(loss) for the year

a. Proposed distribution of results

The proposed distribution of profits for 2015 by the Corporation's Directors is set out below:

Units: Thousand euro

	2015
Available for distribution	
Profit and loss	2,194
Application	
Special reserve	2,086
Statutory reserve	108
Total	**2,194**

b. Restrictions on the distribution of profits

In accordance with Article 29 of Royal Decree 1716/2004, the following restriction on the application of profits is established:

"Any positive results deriving from the sale or swap of strategic stocks carried out in accordance with the provisions of Article 36 cannot be distributed and will be first applied to the repayment of any debts incurred by Corporación de Reservas Estratégicas de Productos Petrolíferos".

In the event of any losses as a result of the Corporation's activity, the Board of Directors may use member contributions and those made by other obligated parties to repay obligations, provided that there are no Reserves from which to make such repayment, and if there are such reserves they would first be applied for this purpose.

5.16. Borrowings and payables

The breakdown of borrowings and payables at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

	2015	2014
Non-current borrowings and payables	**1,766,391**	**1,801,250**
Bank borrowings	668,030	698,148
Bonds and debentures	1,098,361	1,103,102
Current borrowings and payables	**406,281**	**86,283**
Bonds and debentures	349,809	-
Current bank borrowings	30,050	60,101
Current interest on bank borrowings	3,523	3,359
Suppliers, associates	137	137
Payables for services received	14,696	12,608
Current payables to associated companies	8,054	10,078
Personnel	-	-
Other financial liabilities	12	-
Total	**2,172,672**	**1,887,533**

There are no significant differences between the carrying value and the fair value of non-current borrowings and payables included under this note.

The carrying value of current borrowings and payables approximates their fair value given that the effect of the discount is not significant.

Current borrowings from associates mainly include the amounts refundable due to overpayments made.

Information regarding the deferral of payments made to suppliers: Additional provision three - "Reporting obligations" established by Law 15/2010 (5 July):

The breakdown of the information that must be disclosed with respect to the average payment period for suppliers is as follows:

	2015
	Days
Average payment period to suppliers	27
Ratio of payments made	29
Ratio of pending payments	4

	Units: Thousand euro
Total payments made	141,248
Total pending payments	10,298
Total	**151,546**

a. Bonds and debentures

On 23 April 2008 5,000 ordinary bonds with a nominal value of €100,000 were issued. The issue took place at a fixed interest rate of 4.5% for the bondholder. The bonds mature in 10 years after issue, which is 2018 in this case.

On 19 April 2013 3,500 ordinary bonds with a nominal value of €100,000 were issued to refinance the maturity of the first bond issue carried out by CORES in 2003. The issue took place at a fixed interest rate of 3.25% for the bondholder. The bonds mature in 3 years after issue, which is 2016 in this case. At 31 December 2015 the liability arising in this respect has been classified as current.

On 16 October 2014 2,500 ordinary bonds with a nominal value of €100,000 were issued to refinance the maturity in 2014 and 2015 of loans and credit facilities provided by credit institutions. The issue took place at a fixed interest rate of 2.50% for the bondholder. The bonds mature in 10 years after issue, which is 2024 in this case.

On 27 November 2015 3,500 ordinary bonds with a nominal value of €100,000 were issued to refinance the 2016 maturity of the 2013 bond issue. The issue took place at a fixed interest rate of 1.5% for the bondholder. The bonds mature in 7 years after issue, which is 2022 in this case.

All of the aforementioned bonds were issued with associated financial interest rate swaps (Note 5.10), except for the issue that took place in 2015. The interest accrued in 2015 in this respect totalled €40,562 thousand (€40,125 thousand in 2014).

b. Bank borrowings

The Corporation has obtained loans and credit facilities at the end of 2015 and 2014:

Units: Thousand euro

	2015	2014
Non-current bank borrowings	668,030	698,148
Current bank borrowings	33,573	63,460
Total	**701,603**	**761,608**

The Corporation recognizes accrued interest payable in 2015 totalling €3,523 thousand (€3,359 thousand in 2014).

The breakdown of these loans and credit facilities by type and maturity date at the end of 2015 and 2014 is as follows:

Units: Thousand euro

	Maturing in less than 1 year	Maturing between 1 and 5 years	Maturing in more than 5 years	Total
Bank borrowings	30,050	268,030	400,000	698,080
Credit facilities	-	-	-	-
Accrued interest payable	3,523	-	-	3,523
Total	**33,573**	**268,030**	**400,000**	**701,603**

Year: 2015

Units: Thousand euro

	Maturing in less than 1 year	Maturing between 1 and 5 years	Maturing in more than 5 years	Total
Bank borrowings	60,101	280,117	418,031	758,249
Credit facilities	-	-	-	-
Accrued interest payable	3,359	-	-	3,359
Total	**63,460**	**280,117**	**418,031**	**761,608**

Year: 2014

In 2015 the interest rate on loans and lines of credit range between Euribor + 0.10% and Euribor + 2.00%

In 2015 interest associated with these financial debt instruments accrued in the amount of €1,097 thousand (€6,576 thousand in 2014).

At 31 December 2015 and 2014 the Corporation does not record any assets securing these loan agreements.

5.17. Other Provisions

At 31 December 2015 and 2014 the Corporation has no knowledge of events or circumstances that require any allocation to provisions.

5.18. Income tax and tax situation Deferred taxes

Corporate income tax is calculated based on the reported profit, obtained by applying generally accepted accounting principles, which does not necessarily agree with taxable income, which is understood to be the tax assessment base.

In accordance with the provisions of Article 52.5 of Law 34/1998, the Corporation is exempt from corporate income tax with respect to the income obtained from its primary activities.

Set out below is the reconciliation between net income and expense for 2015 and 2014 and the Group's income tax assessment base.

Units: Thousand euro

Income statement

	Increases	Decreases	
Income/expense for the year			**2,194**
Corporate income tax	29	-	**29**
Exempt income in accordance with Article 52.5 of Law 34/1998.	168,652	(170,757)	**(2,105)**
Tax base			**118**

Year: 2015

Units: Thousand euro

Income statement

	Increases	Decreases	
Income/expense for the year			**5,303**
Corporate income tax	6	-	**6**
Exempt income in accordance with Article 52.5 of Law 34/1998.	179,285	(184,569)	**(5,284)**
Tax base			**25**

Year: 2014

In the absence of other regulations that developed the exemption established by Article 52.5 of Law 34/1998, the Corporation interprets ("a sensu contrario") that only the income generated from sources other than gains on the disposal of Strategic Reserves and the financial contributions made by obligated parties is subject to corporate income tax.

Current income tax is calculated by applying a tax rate of 25% (25% in 2014) to the tax base. Tax withholdings and interim payments in 2015 totalled €9 thousand (€3 thousand in 2014). The amount payable to the tax authorities totals €3 thousand in 2015 (€3 thousand in 2014).

All the Corporation's tax returns for the last four years for the principal taxes to which it is subject are open to inspection by the tax authorities. No significant additional liabilities are expected to arise in the event of a tax inspection.

Movements in deferred tax assets and liabilities in 2015 and 2014 are as follows:

Units: Thousand euro

	Balance at 01.01.14	**Increases**	**Balance at 31.12.14**	**Decreases**	**Balance at 31.12.15**
Deferred tax liabilities:	**(17,142)**	**(164)**	**(17,306)**	**4,548**	**(12,758)**
Financial derivatives	(17,142)	(164)	(17,306)	4,548	(12,758)

5.19. Income and expense

a. Revenues

In 2015 the Corporation's revenues (Note 5.3.l) totalled €170,671 thousand (€184,569 thousand in 2014). Given the Corporation's activity it is not possible to segregate revenues by geographic market since it is entirely carried out in Spain.

b. Raw materials and consumables

Movements in the various accounts representing Strategic Reserves in 2015 gave rise to a €3,435 thousand decrease in their value compared with 2014, due to the net decline in strategic reserves totalling 21,392 m^3 (735 m^3 in gasolines, 4,257 m^3 in medium distillates, 12,202 tonnes of fuel oils and 4,198 m^3 in crude oil), due to the fact that contractual shrinkage of products and crudes was not replaced and a quantity of fuel oil was sold (12,202 tonnes).

c. Personnel expenses

Units: Thousand euro

	2015	2014
Wages, salaries and similar remuneration	2,465	2,356
Employee benefit expenses:	1,036	1,093
Contributions and appropriations to pensions	172	213
Other employee benefit expenses	759	760
Per Diems	105	120
Total	**3,501**	**3,449**

The line “Wages, salaries and similar items” includes no indemnities for dismissals in 2015 or 2014.

The average number of employees and members of the Board of Directors during the financial year is set out below by category and gender:

	2015		Male	Female	Total
Members of the Board of Directors	11 (*)	**Members of the Board of Directors**	8	3	11
Executives	5	**Executives**	2	3	5
Managers, specialists and administrative employees	40	**Managers, specialists and administrative employees**	19	21	40
Total	**56 (**)**		**29**	**27**	**56**

(*) Average number since there were two vacancies between the General Assembly in 2014 and the General Assembly in 2015.

(**) Includes 11 members of the Board of Directors. The Corporation's CEO is included in this distribution as he is a member and the Chair of the Board.

	2014		Male	Female	Total
Members of the Board of Directors	12	**Members of the Board of Directors**	10	2	12
Executives	5	**Executives**	2	3	5
University graduates, specialists and administrative employees	39	**University graduates, specialists and administrative employees**	19	20	39
Total	**56 (*)**		**30**	**26**	**56**

(*) Includes 12 members of the Board of Directors. The Corporation's CEO is included in this distribution as he is a member and the Chair of the Board.

5.20. Financial income/(expense)

The breakdown of financial income and expense at 31 December 2015 and 2014 is as follows:

Units: Thousand euro

	2015	2014
Financial income	**137**	**29**
Other financial income	137	29
Financial expense	**(18,061)**	**(22,372)**
On payables to third parties:		
Interest on debentures and bonds	(16,236)	(14,575)
Loan interest	(1,097)	(6,576)
Other financial expense	(728)	(1,221)
Exchange differences	**(1)**	**(1)**
Financial income/(expense)	**(17,925)**	**(22,344)**

5.21. Commitments

Operating lease commitments

The expense recognized in the income statement in 2015, mainly due to the operating lease covering third-party facilities as a result of the storage of the strategic reserves, totalled €135,369 thousand (€143,790 thousand in 2014). This amount has declined as a result of the renegotiation of part of the aforementioned lease agreements for hydrocarbon storage facilities. In future years the amount payable in this respect will vary based on the level of those facilities are used in accordance with the volume of the necessary strategic reserve.

5.22. Compensation paid to the Board of Directors and Senior Management

The bylaws stipulate that the governing bodies for CORES are the General Assembly and the Board of Directors. The main duties of the General Assembly consist of approving the annual accounts, the proposed membership fees and in general two meetings are held each year.

In accordance with the Corporation's Articles of Association that were approved through an Appendix to Royal Decree 1716/2004, the Board of Directors of CORES is formed by the Chair, appointed by the Minister of Industry, Energy and Tourism and 11 members, seven of which are chosen by the members of the Corporation at a General Assembly every five years. The two positions relating to the representatives of wholesale oil product operators that do not have refining capacity and which were vacant at 31 December 2014 were covered by the Corporation's General Assembly held on 18 June 2015.

The duties of the Board of Directors as stipulated by Article 12 of its bylaws, mainly consist of controlling the activities carried out by CORES and determining general policies, as well as any matters of importance for the Corporation. In this respect, the Board of Directors is responsible for preparing the annual accounts and approving the proposal for establishing membership fees, among others.

Accordingly, in 2015 and 2014, given that Senior Management is considered to be the members of the Board of Directors with executive duties, the Directors have not been included under this heading.

a. Compensation for the members of the Board of Directors:

In 2015 the amount accrued by the members of the Board of Directors totalled €340 thousand (€355 thousand in 2014).

No advances or loans have been granted to the members of the Board of Directors.

The Corporation has obtained a life insurance policy for which premiums totalled €4.7 thousand in 2015 (€3.7 thousand in 2014).

b. Senior Management compensation and loans:

In 2015 no member of senior management that is excluded from paragraph a received any compensation, advance payments or loans.

c. Other information:

For the purposes of complying with the provisions of Article 229 of the Spanish Companies Act 2010, the Corporation understands that:

The obligation established by this Article, approved by Royal Decree 1/2010 (2 July) is applicable, in the absence of a better opinion, to the public limited company (SA company) whose capital is divided into shares and whose shareholders are not personally liable to the business' debt and to the limited liability company.

CORES is not a company, it does not have share capital and, as a result, it does not have shareholders. This obligation is therefore not applicable.

5.23. Other related-party transactions

Given the Corporation's nature and legal purpose, the obligated parties that are members of the Corporation and which are members of the Board of Directors are considered to be associated parties.

The assets and services that are acquired from associated companies are obtained under normal market terms and conditions and mainly relate to storage services for the petroleum product stocks, which constitutes the Corporation's main activity, in compliance with its primary duty established in Article 52 of Law 34/1998 and Royal Decree 1716/2004, in addition to the sale of crude oil and products.

Specifically, maintenance operations, which include the operating lease for the strategic stock storage facilities that CORES has concluded with members of the Corporation that are also members of its Board of Directors, totalled €62,443 thousand in 2015 (€65,407 thousand in 2014), which is 46% of the total (45% in 2014), and the remaining 54% (55% in 2014) was contracted with logistics operators that are not members of the Corporation or, therefore, its Board of Directors.

The accounts receivable from associated parties totalling €1 thousand (€24 thousand in 2014) derived from the amounts obtained for the rendering of services relating to the creation, maintenance and management of the strategic reserves. Receivables are not insured and accrue interest (legal interest rate plus three points) for the delay in the payment of fees to the Corporation by obligated parties. Furthermore, in 2015 €3,322 thousand in excess reserves were sold to related entities (operators) (€6,694 thousand in 2014).

The amounts payable to associates totalling €137 thousand (€137 thousand in 2014) derived from acquisition transactions, changes in product specifications and swaps involving related parties. In 2015 and 2014 there were no acquisition transactions changes in product specifications or shrinkage. The heading "Current payables to associated companies" on the liability side of the balance sheet records the access fees paid by operators, obligated parties, which are refunded in the following period. At the end of 2015 this heading records €7,700 thousand (€9,623 thousand in 2014), of which €5,720 thousand involves related parties (€7,732 thousand in 2014).

5.24. Information on the environment

At 31 December 2015 no significant assets have been applied to protect or improve the environment and no relevant expenses of this nature have been incurred during the year.

The Corporation believes that there are no significant contingencies relating to the protection and improvement of the environment and do not consider it necessary to record any provision for environmental liabilities and expenses at 31 December 2015.

No environmental grants have been recorded during the year.

5.25. Subsequent events

Between the end of the year and up until the time the annual accounts were prepared the following events took place that could influence the Corporation's financial situation.

5.26. Auditors' fees

The fees accrued by the various companies that use the PwC trademark are as follows (thousand euro):

Units: Thousand euro

	2015	2014
Audit and related services	15	15
Other services	33	5
Total	**48**	**20**

6. Directors' Report 2015

6.1. Nature and duties

CORES is a public law corporation with its own legal personality that operates in accordance with private law and is subject to the authority of the General State Administration through the Ministry of Industry, Energy and Tourism.

Its financing derives from the contributions made by obligated parties, notwithstanding the fact that it may also access financial markets.

The duties of CORES are those that are described in point 5.1 of the notes to the annual accounts and fundamentally consist of the acquisition, creation, maintenance and management of hydrocarbon reserves, including natural gas, that are determined by regulations as well as strategic stocks, the control of minimum security oil and natural gas stocks that stakeholders are required to maintain, control over the obligation to diversify natural gas supplies and to obtain statistics regarding the hydrocarbon sector.

This year of 2015 was particularly relevant to CORES in terms of its functions and regulations given that its legal system was modified to include the possibility that the Corporation may maintain part of the strategic natural gas stocks, in addition to the oil products that it has held since its creation. Although the relevant enabling regulations will be necessary to determine the specific level of strategic natural gas reserves that CORES must maintain, Law 8/12015 (21 May) amended Law 34/1998 (7 October) on the Hydrocarbon Sector which, by recognizing CORES as another member of the gas system, enables the legal structure that is necessary so that it can maintain part of the natural gas reserves. Royal Decree 984/2015 (30 October) enables this legal amendment and regulates the organized gas market and access to natural gas system facilities and establishes similar terms for CORES in the natural gas system ("Market RD"), in addition to introducing other relevant amendments established by Royal Decree 1716/2004. As a result of the new natural gas strategic stock maintenance duties falling to CORES, the Market RD introduced certain instrumental forecasts that are necessary to carry out that duty when the regulatory level is specified.

Article 3 recognizes CORES' right to access the gas system facilities to perform its new duty to maintain the natural gas strategic stocks that will be determined in the future. Article 17 recognizes CORES' capacity to participate in the Organized Gas Market that is created by the Market RD and, therefore, to assume the status of "authorized party" and "agent" in that organized market. Finally, Article 32 recognizes that CORES, in general terms and as is the case with any other agent in that market, may form part of the "Market Agent Committee", which is a consultation body in that market. More specifically, the Corporation has been expressly recognized as entitled to attend its meetings and may be heard but may not vote as it is not a member.

The Market RD also includes Final Provision Two that amends Royal Decree 1716/2004, which enables the legal system that is applicable to the Corporation with respect to aspects relating to the obligation to maintain minimum oil product security stocks in Spain and which are contained, as is explained in the preamble, within the reforms made to encourage competition and the efficiency of wholesale and retail hydrocarbon markets which, ultimately, will give rise to a lower cost for consumers.

It approves the amendments that are necessary to provide the flexibility to allow CORES to maintain oil product stocks for the Spanish parties required to do so for longer than the 42 days that must be maintained by all of them up to an amount equivalent to 100% of their obligation, i.e. 92 days of sufficient reserves. It also introduces the provisions that are necessary to prioritize the parties with lower market power in the event that it cannot attend to all requests.

CORES is also responsible for the preparation of the statistical information referred to in the new Appendix III of Royal Decree 1716/2004.

The Corporation will also prepare a two-year and a five-year strategic and operating plan that will provide details on how it will comply with its duties in the most effective and efficient manner possible.

The Ministry of Industry, Energy and Tourism, at the proposal of the Corporation, will prepare general standards for plans to be applied in the event of a crisis involving the supply of oil products or one-off distribution problems.

The Market RD introduces other amendments to Royal Decree 1716/2004 and, although they do not exclusively refer to CORES, they are very relevant as they relate to the change in the period for calculating the minimum oil product security stock maintenance obligation from a "moving year" to a calendar year.

It also makes keeping reserves in Spain more flexible, even for CORES, benefiting the member states of the European Union, their central stockholding entities and their citizens, in line with the provisions of Directive 2009/119/EC of the Council (14 September 2009), as well as benefiting third-party states that are members of the International Energy Agency after concluding the relevant inter-governmental agreement.

Additional Provision Three of the Market RD stipulates that within six months of publication the Corporation must send to the Ministry of Industry, Energy and Tourism a sales plan for any surplus strategic stocks that exist after the additional assignments of reserves by CORES in accordance with the content of that section, in order to adapt them to the volumes established by Royal Decree 1716/2004 (23 July).

At 31 December 2015 CORES members were as follows, not taking into account the existence of consolidated groups:

- There are 158 operators authorized to distribute petroleum products on a wholesale basis and during the year 18 were added and 30 eliminated.

- There are 9 companies authorized to distribute liquid petroleum gas on a wholesale basis as Authorized Operators. There were no additions or disposals during the year.

- There are 137 companies authorized as natural gas Marketers. During the year there were 26 registrations and 12 removals.

6.2. Main regulations regarding CORES that have been published in 2015

The main regulations regarding CORES that have been published in 2015 are as follows:

1. Law 8/2015 (21 May) that amends Law 34/1998 (7 October) on the Hydrocarbon Sector and which regulates certain tax and non-tax matters relating to the exploration, investigation and exploitation of hydrocarbons.

2. Royal Decree 984/2015 (30 October), which regulates the organized gas market and access to natural gas system facilities.

3. Order ITC/2839/2015 (23 December) which approved the quotas for Corporación de Reservas Estratégicas de Productos Petrolíferos for 2016.
4. Order ITC/1981/2015 (30 September) which amends the quotas for Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) for 2015.
5. Order ITC/1163/2015 (2 June), which covers the resignation and appointment of the members of the Governing Board of Corporación de Reservas Estratégicas de Productos Petrolíferos.

6. Order ITC/422/2015 (9 March), which covers the resignation and appointment of the members of the Governing Board of Corporación de Reservas Estratégicas de Productos Petrolíferos.

7. Resolution dated 4 September 2015 issued by the Secretary of State for Energy that approves the market rules, the member agreement and the resolutions relating to the organized gas market.

6.3. The Corporation's primary activities in 2015

CORES is the Central Stockholding Entity in Spain as defined by Directive 2009/119/EC. CORES contributes to guarantee the security of hydrocarbon supplies by maintaining petroleum product reserves and controlling the inventories maintained by the industry with respect to petroleum products, liquid petroleum gases (LPG) and natural gas and it is also a point of reference for information on the hydrocarbon sector since it was created in 1995.

CORES also contributes to guarantee adequate diversification of natural gas supplies in Spain by controlling the origin of supplies and the calculation of the diversification percentage applicable to the country.

a. Creation, storage and management of strategic reserves

The obligation to maintain minimum petroleum products security stocks in Spain is currently 92 equivalent days of sales or computable consumption, which must be maintained at all times. The total obligation is distributed between CORES, which is responsible for 42 days of strategic reserves and the industry which must maintain the remaining 50 days of strategic reserves.

At 31 December 2015 the composition and volume of CORES' reserves was as follows:

- Gasolines: 672,318 m^3
- Kerosenes and diesels: 4,418,783 m^3
- Fuel oils: 203,748 t
- Crude: 2,794,457 m^3

Compared with the situation in 2014 there has been a net decline of 21,392 m^3 in the strategic reserves (broken down as a 735 m^3 decline in gasolines, 4,257 m^3 in medium distillates, 12,202 t in fuel oils and 4,198 m^3 in oil crudes). In the case of oil products, the decline is due to the decision adopted by the Board of Directors to not replace shrinkage and to sell a quantity of fuel oil (12,202 tonnes). In the case of crude, the decline in volume is also due to the non-replacement of shrinkage.

At 31 December 2015 the Corporation held 55.1 days of reserves, which is a 1.9-day increase compared with 2014, mainly due to the decline in sales subject to the obligation. As a result, CORES has had inventory levels that exceed its obligation over the entire year and therefore it has not been necessary to acquire products.

In 2015 CORES organized an auction to sell BIA fuel oil. In February 12,202 tons were sold through a bid process that was published on the Internet and open to oil product operators and other companies that import and trade in this product, in accordance with the habitual procedures followed by CORES.

Throughout 2015, CORES performed 34 inspections of the amount and the quality of the strategic reserves, covering approximately 71% of the total.

b. Control over compliance with the obligation to maintain minimum security stocks.

In 2015 the Corporation continued with its activity involving the control over compliance with the obligation to maintain minimum security stocks of liquid hydrocarbons, LPG and natural gas on the part of the industry.

The Inspection Plan for 2015 was prepared in accordance with the provisions of current legislation. The Corporation selected certain obligated parties to perform the relevant inspections. Case files were opened when any non-compliance is detected on the part of an obligated party. The inspection action that took place in 2015 was as follows:

- Liquid hydrocarbons: 47 inspections were carried out covering 78% of the obligation.
- Natural Gas: and overall inspection was performed on all of the 113 registered obligated parties.
- LPG: two systematic inspections were carried out.

It should be noted that the assessments raised by the Corporation affect a limited number of parties and concern an amount of stocks that have little quantitative importance and in no case was compliance with Spain's obligation to maintain minimum security stocks compromised.

Finally, the Corporation is currently preparing Annual Inspection Report [1] that, in accordance with Article 7 of Order ITC/3283/2005 (11 October), CORES must send to the Directorate General for Energy and Mining Policy and the National Markets and Competition Commission before 1 May 2016.

c. Control over compliance with the obligation to diversify natural gas supplies.

Within the framework of its duties, CORES evaluates compliance with the obligation to diversify natural gas supplies using two types of supervisory activities.

---

[1] *CORES annual reports regarding compliance with the obligation to maintain minimum security stocks of petroleum products and natural gas, as well as the diversification of natural gas supplies.*

Firstly, in 2015, as part of an analysis systematically carried out every year, CORES calculated the percentage of supply diversification in Spain in 2014 based on information provided by natural gas distribution companies, excluding from the calculation the volume of gas required for facilities with guaranteed alternative supplies of other fuels, as well as supplies not intended for domestic consumption, in accordance with current legislation.

As a result, the main supplier of Spain was Algeria, representing 51.4% of the total supplies subject to diversification, which is the same level as last year. This percentage is above the current limit of 50% such that legal obligations could arise for those companies with a supply quota exceeding 7%. The result is published on the CORES website in the section relating to diversification analysis.

Secondly, at the end of 2015 CORES requested information relating to the diversification of gas distribution companies. The information obtained will be processed and analysed during the first quarter of 2016.

d. CORES as a point of reference with respect to research and development in the sector.

The Spanish supplies security system is based on sector agents sending CORES a monthly report of their activities as part of the legal obligation to maintain minimum-security stocks, and those activities are verified on a monthly basis by the Corporation.

Using this mechanism, CORES is a point of reference in the Hydrocarbon Sector and is co-responsible for several headings in the National Statistics Plan. CORES collaborates with the Government with respect to the statistical report regarding the sector provided to international bodies, such as the International Energy Agency and Eurostat. This is a differential activity performed by CORES compared with other central stockholding entities and it has continued to be strengthened in 2015 in order to improve the distribution of information regarding the Spanish Hydrocarbon Sector. The published information fundamentally consists of data regarding consumption, foreign trade, trade balance, production oil and natural gas product stocks in Spain, and in most cases includes historical data concerning the past 20 years. Since 2015 the statistics are also available in English.

After the update and improvement in 2014 of the oil industry product consumption method, which Spain must send on an annual basis as part of the *Annual Oil Statistics* ("AOS") to international institutions (IEA, OECD, EUROSTAT and UNECE) and for which CORES is co-responsible, the statistics relating to 2013 and 2014 were made public and therefore became a new historical series.

Existing publications have been maintained through the publication of the 2014 Annual Statistics Report which, for the first time, has also been published in English together with the publication of 34 i_Cores, among which the monthly additions on consumption, crude import and imports and exports of natural gas.

In 2015 Cores increased its presence on social media, with profiles on Twitter, LinkedIn and Facebook thereby contributing to the broadcasting of the Spanish supply security model.

e. Research and development activities

In 2015 CORES did not carry out any research and development activities.

f. Financing of the Corporation's activities

Due to the fact that it is a public law Corporation, it does not have share capital. In accordance with Royal Decree 1716/2004, the income obtained by CORES derives from the fees paid by its members and the rest of the obligated parties to maintain the minimum security stocks and which make monthly or annual contributions based on their sales or consumption.

The fee proposal is based on the income and expense budget that contains a forecast of the financial means that are necessary to comply with its objectives. The aforementioned budget is approved, together with the proposed fees, by the Board of Directors. The Ministry of Industry, Energy and Tourism published the fees for 2015 in Order ICT/2470/2014 (29 December).

During the year there were changes in some of the assumptions taken into account in the Corporation's Budget, which was used as the basis for the approval of the fees for 2015 in the aforementioned Order.

In one sense the evolution of sales reflected better than expected performance within the scenario of recovery of the Spanish economy, but there was also a notable reduction in budgeted financial and maintenance costs relating to strategic reserves, fundamentally as a result of downward movement in benchmark interest rates applied by the European monetary authorities and the policy of contracting coverage for storage capacity needs.

As a result of the above, over the course of the first three quarters of the year there was a surplus amount collected compared with the cost of the Corporation's activities.

Accordingly, a proposal was made to decrease the fees applicable to sales or consumption starting in September 2015, inclusive, except for those relating to liquid petroleum gases and natural gas, which remained unchanged. The Ministry of Industry, Energy and Tourism approved Order ICT/1981/2015 (30 September), which amends the CORES fees for 2015.

As was the case in prior years, the level of delinquencies (0.01%) is not relevant as a result of the mandatory nature of the payment of the fees, as established in Law 34/1998 (7 October), on the hydrocarbon sector.

Finally, the average payment period for suppliers and creditors of CORES in 2015 was 27 days.

CORES finances its assets using borrowings from two primary sources, bilateral loans from financial institutions and the issue of bonds on national and international markets.

In order to reduce refinancing risks, the established policy in the present environment currently has two objectives. The first is to obtain more funds from the debt market through the issue of bonds, reducing the dependency on loans from financial institutions and the second is to redefine the maturity date curve.

Accordingly, in 20915 a loan maturing in 2018 was renegotiated, extending the term and establishing partial repayments in 2019 and 2020. A new €350 million issue of 7-year bonds also took place on 27 November 2015, the objective of which is to obtain funds early to repay the issue maturing in April 2016. For that issue CORES obtained a BBB+ rating from Fitch and a BBB+ rating from STANDARD & Poor's.

6.4. Events taking place after the year end and the foreseeable evolution of the Corporation in the future

Between the end of the year and up until the preparation of this report, the following events should be noted:

Article 14 of Royal Decree 1716/2004 allows CORES to maintain an additional number of days of stocks beyond the mandatory 42 for obligated parties that so request. After the latest amendment dated 31 October 2015 a new method was introduced into the aforementioned Royal Decree that increase the flexibility of the sign compared to the preceding, under which CORES could only assign an additional 35 days during three years. This new mechanism not only allows the full obligation of 92 days to be covered, i.e. up to 50 additional days and in the desired amount, but also makes it possible for the number of days to be different depending on the product concerned, thereby achieving better adaptation to the real needs of the obligated parties.

Provided that there is a sufficient surplus, CORES may attend to all requests that it receives but if the surplus is not sufficient the Royal Decree stipulates the priority criteria that must be applied for fair assignment, giving preference to small companies. Once the relevant days have been assigned, the possibility arises to maintain stocks on behalf of member states of the EU for their central stockholding entities, or member states of the International Energy Agency or agencies pertaining to those states.

Taking the above into account, CORES has implemented the first procedure for assigning additional days under new criteria in order to cover obligation days during the months between 1 April 2016 and 31 March 2017, which coincides with the first period over which the new obligation calculation will be applied based on sales during the calendar year, and this process will be open to domestic obligated parties. Once the first assignment has been completed, and provided that there is a surplus, new assignment periods will be opened to cover any needs on the part of domestic industry or for foreign entities.

This mechanism for assigning days constitutes a method for optimizing the surplus that CORES currently, together with the possibility of selling the surplus in accordance with Royal Decree 984/2015. Before 1 May 2016 CORES must present a plan to sell surplus in order to adapt to the volumes that are required by law. To prepare that sales plan CORES will take into account a large number of variables (future needs in terms of the obligations, requests for additional days, market situation, and stockholding agreements, etc.), with transparency and with the premise of not altering the normal operation of oil markets.

In the future the Corporation will maintain a line of work tending to consolidate the role of CORES as the guarantor of supply security in Spain and its future as a Central Stockholding Entity.

6.5. Risks and uncertainties

In 2015 the Corporation has identified, analysed and controlled risks to manage the income statement and to take investment and operating decisions in order to comply with its mission in a satisfactory manner.

7. Signatures of the members of the Board of Directors

Chair:

Mr. Pedro Miras Salamanca

Director/Vice-Chair:

REPSOL PETRÓLEO, S.A.

Represented by:

Mr. Francisco Vázquez González

Voting member:

Mr. Sergio López Pérez

Voting member:

Mrs. Susana Fernández

Voting member:

Mrs. Eva Alonso Casado

Voting member:

Mr. Carlos Aguirre Calzada

Voting member BP OIL ESPAÑA, S.A.:

Represented by:

Mr. Pedro Palacio Tovar

Voting member COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.:

Represented by:

Mr. Carlos Navarro

Voting member ESERGUI, S.A.:

Represented by:

Mr. Juan Gómez Genua

Voting member GALP ENERGÍA ESPAÑA, S.A.:

Represented by:

Mr. Nuno Moreira Da Cruz

Director REPSOL BUTANO, S.A.:

Represented by:

Mr. Jaime Fernández-Cuesta Luca de Tena

Director GAS NATURAL COMERCIALIZADORA, S.A.:

Represented by:

Mr. Joaquín Mendiluce Villanueva

Madrid, 31 March, 2016

8. Certification by the Secretary to the Board of Directors

JUAN SERRADA HIERRO, Secretary to the Board of Directors of CORPORACION DE RESERVAS ESTRATEGICAS DE PRODUCTOS PETROLIFEROS – CORES, domiciled at Paseo de la Castellana, 79-7ª Planta – 28046 MADRID, and holding Tax ID number Q-2870025 J.

CERTIFIES

That the preceding Annual Accounts and Directors' Report for the Corporation for 2015 consists of 55* pages, all initialled by the Secretary, and the signatures of the Members of the Board of Directors figure on the last two pages.

In witness whereof and for the appropriate purposes, I hereby issue this certificate in Madrid on 31 March 2016.

Secretary	Chairman
Signed: Juan Serrada Hierro	Signed: Pedro Miras Salamanca

*Original Spanish versión has 60 pages

Corporación
de Reservas Estratégicas
de Productos Petrolíferos

Castellana, 79 · 28046 Madrid
T. +34 91 360 09 10
F. +34 91 420 39 45
www.cores.es