Financial Statements and Directors' Report

2016

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.1 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

Contents

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

1. Balance sheet

Assets

Balance sheet as at 31 December 2016

Units: Thousands of Euros

	Notes	2016	2015
NON-CURRENT ASSETS		**85,412**	**84,199**
Intangible assets	**5.5**	**4**	**10**
Computer software		4	10
Property, plant and equipment	**5.6**	**26,939**	**29,688**
Plant and other items of property, plant and equipment		26,939	29,688
Non-current financial assets	**5.8-9-10**	**58,469**	**54,501**
Derivatives	5.8-10	58,417	54,448
Other financial assets	5.8-9	52	53
CURRENT ASSETS		**1,940,878**	**2,338,444**
Inventories	**5.11**	**1,880,355**	**1,986,861**
Strategic reserves		1,880,355	1,986,861
Trade and other receivables	**5.8-9**	**505**	**93**
Trade receivables from Group companies and associates		369	1
Sundry accounts receivable	5.8-9	-	2
Employee receivables	5.8-9	64	64
Other accounts receivable from public authorities		72	26
Current financial assets	**5.8-10**	**-**	**443**
Derivatives	5.8-10	-	443
Current prepayments and accrued income		**3**	**43**
Cash and cash equivalents	**5.12**	**60,015**	**351,004**
Cash		60,015	351,004
Total assets		**2,026,290**	**2,422,643**

The accompanying Notes 5.1 to 5.27 are an integral part of the balance sheet as at 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

Equity and liabilities

Balance sheet as at 31 December 2016

Units: Thousands of Euros

	Notes	2016	2015
EQUITY		**237,553**	**235,446**
Own funds:		**237,553**	**197,173**
Capital	**5.13**	**-**	**-**
Reserves	**5.14**	**197,173**	**194,979**
Special reserves		137,803	135,717
Bylaw reserves		59,370	59,262
Profit for the year	**5.15**	**40,380**	**2,194**
Valuation adjustments:		**-**	**38,273**
Hedges		-	38,273
NON-CURRENT LIABILITIES		**1,763,612**	**1,779,149**
Non-current payables	**5.8-16**	**1,763,612**	**1,766,391**
Debt instruments and other marketable securities		1,153,610	1,098,361
Bank borrowings		610,002	668,030
Deferred tax liabilities	**5.18**	**-**	**12,758**
CURRENT LIABILITIES		**25,125**	**408,048**
Current payables	**5.8-16**	**1,167**	**383,394**
Debt instruments and other marketable securities		-	349,809
Bank borrowings		1,155	33,573
Other financial liabilities		12	12
Current payables to associates	**5.8-16**	**8,864**	**8,054**
Trade and other payables		**15,094**	**16,600**
Payable to suppliers - associates	5.8-16	137	137
Accounts payable	5.8-16	12,149	14,696
Current tax liabilities	5.18	53	29
Other accounts payable to public authorities		2,755	1,738
Total equity and liabilities		**2,026,290**	**2,422,643**

The accompanying Notes 5.1 to 5.27 are an integral part of the balance sheet as at 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

2. Statement of profit or loss

For the year ended 31 December 2016

Units: Thousands of Euros

	Notes	2016	2015
A) CONTINUING OPERATIONS			
1. Revenue	**5.19**	**304,329**	**170,671**
a) Sales		144,669	3,322
b) Services		159,660	167,349
2. Changes in inventories of finished goods and work in progress	**5.11-19**	**(106,506)**	**(3,435)**
4. Staff costs	**5.19**	**(3,696)**	**(3,501)**
a) Wages, salaries and similar expenses		(2,524)	(2,465)
b) Employee benefit costs		(1,172)	(1,036)
5. Other operating expenses	**5.7**	**(137,888)**	**(140,784)**
a) Outside services		(137,222)	(140,845)
b) Taxes other than income tax		(55)	(17)
c) Losses on and write-down of trade receivables and changes in provisions for commercial transactions	5.9	(611)	78
6. Depreciation and amortisation charge	**5.5-6**	**(2,799)**	**(2,803)**
A.1) PROFIT FROM OPERATIONS		**53,440**	**20,148**
9. Finance income	**5.20**	**227**	**137**
b) From marketable securities and other financial instruments		227	137
b2) Third parties		227	137
10. Finance costs	**5.20**	**(13,233)**	**(18,061)**
b) On debts to third parties		(13,233)	(18,061)
11. Exchange differences	**5.20**	**(1)**	**(1)**
A.2) FINANCIAL LOSS		**(13,007)**	**(17,925)**
A.3) PROFIT BEFORE TAX		**40,433**	**2,223**
12. Income tax	**5.18**	**(53)**	**(29)**
A.4) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**40,380**	**2,194**
Profit for the year		**40,380**	**2,194**

The accompanying Notes 5.1 to 5.27 are an integral part of the statement of profit or loss for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

3. Statement of changes in equity

For the year ended 31 December 2016

A) Statement of recognised income and expense

Units: Thousands of Euros

	Notes	2016	2015
Profit per statement of profit or loss	**5.15**	**40,380**	**2,194**
Income and expense recognised directly in equity		**(21,036)**	**20,349**
Arising from cash flow hedges	5.10	(28,048)	27,134
Tax effect	5.18	7,012	(6,785)
Transfers to profit or loss		**(17,237)**	**(33,997)**
Arising from cash flow hedges	5.10	(22,985)	(45,330)
Tax effect	5.18	5,748	11,333
Other			
Total recognised income and expense		**2,107**	**(11,454)**

The accompanying Notes 5.1 to 5.27 are an integral part of the statement of recognised income and expense for the year ended 31 December 2016.

B) Statement of changes in total equity

Units: Thousands of Euros

	Reserves	Profit for the Year	Valuation Adjustments	TOTAL
2014 ENDING BALANCE	**189,676**	**5,303**	**51,921**	**246,900**
Total recognised income and expense	**-**	**2,194**	**(13,648)**	**(11,454)**
Transactions with shareholders or owners:				
Distribution of prior year's profit	**5,303**	**(5,303)**	**-**	**-**
2015 ENDING BALANCE	**194,979**	**2,194**	**38,273**	**235,446**
Total recognised income and expense	**-**	**40,380**	**(38,273)**	**2,107**
Transactions with shareholders or owners:				
Distribution of prior year's profit	**2,194**	**(2,194)**	**-**	**-**
2016 ending balance	**197,173**	**40,380**	**-**	**237,553**

The accompanying Notes 5.1 to 5.27 are an integral part of the statement of changes in equity for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

4. Statement of cash flows

For the year ended 31 December 2016

Units: Thousands of Euros

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		**147,135**	**8,766**
Profit for the year before tax	5.15	40,433	2,223
Adjustments for:		**16,417**	**20,650**
Depreciation and amortisation charge	5.5-6	2,799	2,803
Impairment losses	5.9	611	(78)
Finance income	5.20	(227)	(137)
Finance costs	5.20	13,233	18,061
Exchange differences	5.20	1	1
Changes in working capital		**104,604**	**4,745**
Inventories	5.19	106,506	3,435
Trade and other receivables		(412)	15
Trade and other payables		(1,530)	1,336
Other current assets and liabilities		40	(41)
Other cash flows from operating activities		**(14,319)**	**(18,852)**
Interest paid		(14,517)	(19,029)
Interest received	5.20	227	137
Income tax recovered (paid)	5.18	(29)	40
CASH FLOWS FROM INVESTING ACTIVITIES		**(44)**	**18,985**
Proceeds from investment		**-**	**19,000**
Other financial assets		-	19,000
Payments due to investment		**(44)**	**(15)**
Intangible assets			
Property, plant and equipment		(44)	(15)
Other financial assets			
CASH FLOWS FROM FINANCING ACTIVITIES		**(438,080)**	**286,318**
Proceeds and payments relating to financial liability instruments		**(438,080)**	**286,318**
Proceeds from issue of:			
Debt instruments and other marketable securities		-	346,419
Redemption and repayment of:			
Debt instruments and other marketable securities	5.16	(350,000)	-
Bank borrowings	5.16	(88,080)	(60,101)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**(290,989)**	**314,069**
Cash and cash equivalents at beginning of year		351,004	36,935
Cash and cash equivalents at end of year		60,015	351,004
Variation in cash and cash equivalents		(290,989)	314,069

The accompanying Notes 5.1 to 5.27 are an integral part of the statement of cash flows for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Corporation in Spain (see Notes 5.2 and 5.27). In the event of a discrepancy, the Spanish-language version prevails.

5. Notes to the financial statements for 2016

5.1. General information

a. Background and legal object

Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) commenced operations on 6 July 1995 pursuant to the provisions of Oil Industry Law 34/1992, of 22 December, and of Royal Decree 2111/1994, of 28 October, regulating the obligation to maintain minimum security stocks of oil products and setting up the Corporation of Strategic Reserves.

Oil and Gas Industry Law 34/1998, of 7 October, and Royal Decree 1716/2004, of 23 July, regulating the obligation to maintain minimum security stocks, define CORES in a substantially identical manner to the definition in the aforementioned Law, and set as its legal object the acquisition, constitution, maintenance and management of such oil and gas reserves, including natural gas reserves, as may be determined by regulation, without prejudice to its other legal duties, which are:

a) Identifying, verifying, accounting for and controlling the stocks defined in Law 34/1998 and its implementing provisions, including commercial stocks. At least every month, CORES must report to the Ministry of Energy, Tourism and the Digital Agenda the levels of stocks stored by the obligated entities and economic operators.

b) Establishing a detailed, permanently updated register of all the emergency stocks stored, excluding any specific stocks. This register shall include, in particular, the data necessary to be able to pinpoint the depot, refinery or storage facility at which the stocks in question are located, as well as the quantities involved, the owner of the stocks and their nature, with reference to the categories defined by mandatory European Union legislation applicable at any time. Such data must be kept for a period of five years.

At any time, the Ministry of Energy, Tourism and the Digital Agenda may request the register from the Corporation, which will have a maximum period of ten days in which to submit it.

Prior to 31 January each year, the Corporation shall send to the Ministry of Energy, Tourism and the Digital Agenda a summarised version of the register, showing at least the quantities and nature of the emergency stocks included in the register on the last day of the preceding calendar year.

c) Publishing on an ongoing basis full information, classified by product category, on the stock volumes the Corporation can undertake to maintain for obligated entities, other economic operators or other central stockholding entities. Also, prior to 31 May each year, the Corporation shall publish the terms and conditions under which it will offer services related to maintaining the stocks for obligated entities.

d) Acquiring or selling, on an exclusive basis, such specific stocks as may be established by the Ministry of Energy, Tourism and the Digital Agenda.

e) Constituting, maintaining and managing reserves on behalf of economic operators or obligated entities under the terms and conditions established by regulation. The reserves that are fully available to the Corporation under lease arrangements must not be transferred or leased in any way to third parties.

f) Calculating and verifying the total levels of stocks of oil equivalent and quantities of products which, on a permanent basis, are held by the Kingdom of Spain, calculated both in days of average daily net imports and days of average daily inland consumption for the reference year in accordance with European legislation and the obligations arising under the international treaties to which the Kingdom of Spain is a party.

The Corporation shall send to the Ministry of Energy, Tourism and the Digital Agenda such statistical lists relating to oil and gas as may be established by regulation.

g) Proposing to the Ministry of Energy, Tourism and the Digital Agenda the actions and measures aimed at implementing and updating the obligations regarding the security of supply of the oil and gas market pursuant to the international obligations assumed by the Kingdom of Spain.

h) Collaborating with the various public authorities for the purpose of providing information and counselling and performing any other activity with respect to matters of its competence in the oil and gas industry, in particular in the review of Spain's emergency preparedness and related stockholding.

i) Performing such functions relating to the security of supply of the oil and gas industry as may be commended to it by the Ministry of Energy, Tourism and the Digital Agenda.

b. Brief description of the legal regime of CORES

Pursuant to Article 52 of Oil and Gas Industry Law 34/1998, CORES is a not-for-profit public-law corporation, which, acting in the general interest, is subject to private law and has separate legal personality. In carrying on its activities, the Corporation shall be under the aegis of the Central Government, which shall exercise it through the Ministry of Energy, Tourism and the Digital Agenda.

Article 28 of Royal Decree 1716/2004 states as follows with respect to the keeping of its accounts:

> "Article 28 Accounting and auditing
> 1. As regards the keeping of its accounts, official books and accounting records, Corporación de Reservas Estratégicas de Productos Petrolíferos shall be governed by the provisions of corporate law.
>
> 2. Prior to their approval, the financial statements, comprising the balance sheet, statement of profit or loss and the notes to the financial statements, together with the directors' report, shall be audited by an independent expert.
>
> 3. Once the financial statements have been approved, they shall be sent to the Ministry of Industry, Trade and Tourism within a maximum period of three months from the date of approval."

The Corporation is under the aegis of the Central Government, a mechanism which, without including it in a relationship of hierarchy and/or dependence on it, enables the legality of the acts of the collective bodies of CORES to be controlled by means of a veto, to be exercised by the Ministry of Energy, Tourism and the Digital Agenda through the chairman of CORES, on any resolutions thereof that might infringe legality or the general interest.

Operators authorised to sell wholesale petroleum products, including liquefied petroleum gases, and retail distributors of natural gas obligatorily become members of CORES, pursuant to Article 6 of the Corporation's bylaws, which were approved by Schedule to Royal Decree 1716/2004.

As stated above, by virtue of Oil and Gas Industry Law 34/1998, of 7 October, CORES became Spain's "central stockholding entity" for the purposes of the provisions of Article 7 of Council Directive 2009/119/EC, of 14 September 2009.

The Corporation's funding mechanisms are, pursuant to Article 52 of Law 34/1998, Articles 24 et seq. of Royal Decree 1716/2004, and Article 13 of its bylaws, which were approved by Schedule to the aforementioned Royal Decree, (i) the fees it charges entities obliged to maintain minimum security stocks of petroleum products and natural gas; and (ii) the financial markets.

In order to fund the constitution and maintenance of strategic stocks and the other activities that the aforementioned legislation confers on the Corporation, and implementing the provisions of Article 52.7 of Law 34/1998, Articles 25 and 26 of Royal Decree 1716/2004 determine that a Ministry of Energy, Tourism and the Digital Agenda Order shall establish, for each calendar year, the unit fees for each group of products which, per metric tonne or cubic metre sold or consumed, and payable in proportion to the days of strategic stocks or, where appropriate, minimum security stocks maintained by the Corporation, must be paid to CORES by entities obliged to maintain minimum security stocks of petroleum products, as well as the annual fees which, depending on their participation in the market, must be paid by entities obliged to maintain minimum security stocks of liquefied petroleum gases and natural gas and to diversify the supply of natural gas.

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

On the basis of the budget prepared for 2016 and approved by the Board of Directors on 26 November 2015, Ministry of Industry, Energy and Tourism Order IET/2839/2015, of 23 December (Spanish Official State Gazette no. 312, of 30 December) approved the fees payable to the Corporation in 2016.

Pursuant to Article 26 of the Royal Decree, once the annual fees have been approved, the Corporation can request the Directorate-General of Energy and Mining Policy that they be modified upwards or downwards by a maximum of 5%, providing documentation supporting the request.

In 2016 there were changes in certain of the assumptions considered in the Corporation's budget for 2016, which was used as the basis for the approval of the fees for 2016 in the aforementioned Ministerial Order.

However, the budget for 2016 prepared and approved in 2015 turned out to be very close to the reality of 2016; on the expense side, there was a decrease in interest costs as a result of Euribor falling below the expected level and, in terms of revenue, there was a downward variance due to the reduction in the requests for CORES to maintain additional days of stocks, although the performance of sales was in line with the budget.

As a result of the all the foregoing, there was an excess of revenue over the cost of the activities, which made it necessary to review the budget (in September) and, as a result, to reduce the fees payable to CORES in 2016 on sales or consumption occurring after September 2016, except for the fees relating to liquefied petroleum gases and natural gas, which remained unchanged.

Ministry of Industry, Energy and Tourism Order IET/1555/2016, of 29 September (Spanish Official State Gazette no. 238, of 1 October) thus published the reduction in the fees payable to CORES relating to the product groups of motor gasoline and aviation gasoline; motor gas oil, other gas oils, aviation kerosene and other kerosenes and fuel oils.

5.2. Basis of presentation

a. Regulatory framework

These financial statements were formally prepared by the members of the Board of Directors in accordance with the regulatory financial reporting framework applicable to the Corporation, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law.
b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, and the amendments thereto introduced by Royal Decree 602/2016, of 2 December.
c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.
d) All other applicable Spanish accounting legislation.

b. Fair presentation

The accompanying financial statements, which were obtained from the Corporation's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Corporation and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Corporation's equity, financial position, results and cash flows for 2016. These financial statements, which were formally prepared by the Corporation's Board of Directors, will be submitted for approval by the General Assembly, and it is considered that they will be approved without any changes.

The financial statements comprise the balance sheet, the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements, which together form a single unit. In order to facilitate understanding, all of the financial statements are presented in thousands of euros.

c. Non-obligatory accounting principles

The Corporation's management filed a request for a ruling with the Spanish Accounting and Audit Institute (ICAC) on the accounting classification and possible valuation adjustments of strategic reserves, and extracted the following conclusions from the ruling dated 23 January 1996:

- Strategic reserves “must be recognised as inventories on the asset side of the balance sheet”.
- Since, pursuant to Royal Decree 1716/2004, the Corporation cannot dispose of its inventories at a price that is lower than acquisition cost, “it is not necessary to recognise the valuation adjustments that might arise as a result of the market price falling below acquisition cost”. Should the selling price or the value of the stocks exchanged be lower than weighted average acquisition cost, the authorisation of the Ministry of Energy, Tourism and the Digital Agenda would be required.
- The notes to the Corporation's financial statements must disclose all of these situations in order to present fairly the Corporation's equity, results and financial position.

d. Key issues in relation to the measurement and estimation of uncertainty

In preparing the financial statements, estimates and judgements were made by the Corporation as to the future -assessed on an ongoing basis- which are based on historical experience and other factors including expectations regarding future events that are considered to be reasonable in view of the circumstances at the time. The resulting accounting estimates will rarely coincide with the corresponding actual results.

Following is an explanation of the estimates and judgements with a significant risk of giving rise to a material adjustment of the carrying amounts of the assets and liabilities in the next financial year.

<u>Fair value of derivatives and other financial instruments</u>

The Corporation has engaged a third party to measure its interest rate swaps. This measurement, which is reviewed quarterly, is performed by discounting at market interest rates the difference between the swap rates and makes assumptions which are based mainly on the market conditions prevailing at the date of each measurement.

e. Applicability of International Financial Reporting Standards

Since the Corporation had launched an issue of non-convertible marketable debentures for EUR 350 million in 2003, and the applicability of International Financial Reporting Standards (IFRSs) to the Corporation's accounts was being considered, the Board of Directors resolved unanimously at its meeting of 15 June 2006 to submit the matter to the Spanish Accounting and Audit Institute (ICAC).

For this purpose, on 28 June 2006, a request for a ruling was submitted to the ICAC containing all the background information which, in the Corporation's opinion, was considered necessary to enable the ICAC to issue a ruling as to whether IFRSs are applicable to the Corporation and, accordingly, whether it must adapt its accounting to the rules included therein.

In its response dated 8 February 2007, the ICAC stated:

"In view of the above, and to the extent that this Institute considered that it should be concluded that, since the consulting entity is not a company as described, the new Article 200.16 of the Consolidated Spanish Public Limited Liability Companies Law (*) is not applicable to it". A report was requested from the Spanish government lawyers of the Subsecretariat of the Ministry of Economy and Finance in order to be able to ratify this position. In short, the aforementioned report concluded as follows:

"Since the legal form of Corporación de Reservas Estratégicas de Productos Petrolíferos is not one of those listed in Article 41 of the Spanish Commercial Code, but rather that of a public-law corporation, the provisions of Article 200.16 of the Consolidated Spanish Public Limited Liability Companies Law (*) are not applicable to it".

(*) Currently regulated in Article 525 of the Spanish Limited Liability Companies Law.

f. Comparative information

The information relating to 2015 contained in these notes to the financial statements is presented, for comparison purposes, with information relating to 2016.

Royal Decree 602/2016, of 2 December (amending the Spanish National Chart of Accounts, approved by Royal Decree 1514/2007, of 16 November), was approved in December 2016. The aforementioned Royal Decree 602/2016 is applicable to reporting periods beginning on or after 1 January 2016.

The main amendments introduced by Royal Decree 602/2016 that affect the Corporation relate to the following:

I. New disclosures in the notes to the financial statements, including most notably, the following: a) the amount of the premiums paid under directors' third-party liability insurance policies; b) the employees with a disability equal to or greater than 33%; and c) the conclusion, amendment or early termination of any agreement between a business entity and any of its shareholders or directors, or any person acting on their behalf, in relation to transactions outside the course of the entity's ordinary business operations or transactions not performed on an arm's length basis.

As regards the new information requirements to be disclosed in the notes to the financial statements and as permitted by Additional Provision Two of the Royal Decree, the Corporation, as permitted by the applicable legislation, did not disclose comparative information.

g. Grouping of items

Certain items in the balance sheet, statement of profit or loss, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

h. Changes in accounting policies

In 2016 there were no significant changes in accounting policies with respect to those applicable in 2015.

i. Correction of errors

In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2015.

5.3. Accounting policies

a. Intangible assets

<u>Computer software</u>

Licenses for computer programs acquired from third parties are capitalised based on the costs incurred to acquire them and prepare them for use. These costs are amortised over their estimated useful life (five years). Computer software maintenance costs are recognised as such on an accrual basis.

b. Property, plant and equipment

Property, plant and equipment items are stated at acquisition or production cost less the accumulated depreciation and any accumulated impairment losses.

In-house work on property, plant and equipment is calculated by adding the direct or indirect costs allocable to the investment to the acquisition cost of the materials used.

The costs of expansion, modernisation or improvement of items of property, plant and equipment are capitalised to the asset only when this leads to increased capacity or productivity or to a lengthening of the useful lives of the property, plant and equipment and provided that it is possible to ascertain or estimate the carrying amount of the items that are derecognised because they have been replaced.

The costs of major repairs are capitalised and depreciated over the estimated useful life thereof, whereas recurring maintenance costs are charged to the statement of profit or loss for the year in which they are incurred.

Depreciation of property, plant and equipment, except for land which is not depreciated, is calculated systematically using the straight-line method over the estimated useful life of the respective assets, based on the actual decline in value caused by their use and by wear and tear. The depreciation rates applied on the basis of the years of estimated useful life of the assets are as follows:

	%
Plant	5%
Other fixtures	6% - 10%
Furniture	10%
Computer hardware	25%

The residual value and the useful life of the assets are reviewed, and adjusted if necessary, at each reporting date.

When the carrying amount of an asset exceeds its estimated recoverable amount, its carrying amount is reduced immediately to its recoverable amount.

The gains and losses on disposal of property, plant and equipment are calculated by comparing the proceeds obtained from the sale with the carrying amount and are recognised in the statement of profit or loss.

The borrowing costs directly attributable to the acquisition or construction of property, plant and equipment that necessarily take a period of more than twelve months to get ready for their intended use are added to the cost of the related items until they come into operation.

c. Impairment losses on non-financial assets

Assets that are amortised or depreciated are tested for impairment whenever an event or a change in circumstances indicates that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount, which is understood to be the higher of fair value less costs to sell and value in use. For the purpose of impairment loss assessment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered an impairment loss are reviewed at the end of each reporting period in order to identify any possible reversal of the impairment loss.

d. Exchanges

The property, plant and equipment, intangible assets or investment property acquired in an asset exchange transaction with commercial substance is recognised at the fair value of the asset given up plus any monetary consideration paid, unless the fair value of the asset received is more clearly evident, and up to the limit thereof. For these purposes, the Corporation considers that an exchange transaction has commercial substance if the configuration of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred or if the present value of the after-tax cash flows of the portion of the operations affected by the transaction changes. Also, either of the foregoing differences must be significant relative to the fair value of the assets exchanged.

If the exchange transaction lacks commercial substance or neither the asset received nor the asset given up is reliably measurable, the assets received are recognised at the carrying amount of the asset given up plus the monetary consideration paid, up to the limit of the fair value of the asset received if this is lower, provided it is measurable.

The Corporation uses asset exchanges that lack commercial substance to acquire certain inventories and, accordingly, the assets received are recognised at the carrying amount of the asset given up plus the monetary consideration paid, up to the limit of the fair value of the asset received if this is lower, provided it is measurable.

e. Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. They are classified as current assets, except for those maturing within more than twelve months from the balance sheet date, which are classified as non-current assets. Loans and receivables are recognised under "Trade and Other Receivables" in the balance sheet.

These financial assets are initially recognised at fair value, plus any directly attributable transaction costs, and are subsequently measured at amortised cost, with the interest accrued recognised on the basis of the assets' effective interest rate, which is the rate that exactly discounts all the estimated cash flows of the assets through their residual life to their carrying amount. However, trade receivables maturing within twelve months are measured at face value, both at initial recognition and subsequently, provided that the effect of not discounting the cash flows is not material.

At least at each reporting date, the necessary valuation adjustments for impairment losses are recognised if there is objective evidence that not all the amounts receivable will be collected.

The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate upon initial recognition. Impairment losses and any reversals of impairment losses are recognised in profit or loss.

f. Financial derivatives and hedge accounting

Financial derivatives are measured at fair value, both on initial recognition and on subsequent measurement. The method for recognising the resulting gains or losses depends on whether the derivative was designated as a hedging instrument and, if so, the type of hedge. Credit risk, liquidity risk and any other risk that two knowledgeable, willing parties in an arm's length transaction would take into account to establish the amount required to settle a liability are used to calculate the fair value.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Corporation verifies, both at inception and periodically over the term of the hedge, that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80% to 125% of the gain or loss on the hedged item.

The Corporation designates the derivatives as:

Fair value hedges

The changes in fair value of the derivatives designated and classified as fair value hedges are recognised in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

g. Inventories

Article 52.6 of Law 34/1998 states as follows: “Also, the Corporation shall recognise its stocks at weighted average acquisition cost from initial recognition”. Per the transcription of Article 52.6 and the opinion stated by the ICAC, which is shown in Note 5.2-c), the Corporation, which has recognised its “strategic reserves” at weighted average acquisition cost, does not need to recognise the valuation adjustments that might arise as a result of the market price falling below acquisition cost.

Royal Decree 1716/2004 establishes a series of restrictions on the disposal of stocks (Article 36), the detail of which is as follows:

- The Corporation may sell or exchange any excess of stocks over the mandatory level, following a resolution of the Board of Directors, provided that such sale, or transfer in the case of an exchange, takes place at a price equal to the higher of weighted average acquisition cost and market.
- In any circumstance other than that envisaged in the preceding section, except as provided for in Article 34.2 (transactions to maintain the quality of the products), sales or exchanges of strategic stocks by the Corporation will require the prior authorisation of the Ministry of Industry, Tourism and Trade.

- Under no circumstances may the sale or exchange of strategic stocks by the Corporation be allowed to alter the conditions regarding competition or the normal functioning of the petroleum product market.

h. Cash and cash equivalents

Cash equivalents are liquid financial assets, deposits and liquid financial investments maturing in less than three months from their acquisition date, are subject to an insignificant risk of changes in value and form part of the Corporation's normal cash management policy.

i. Financial liabilities

Accounts payable

This category includes trade and non-trade payables. These payables are classified as current liabilities unless the Corporation has the unconditional right to defer repayment of the debt for at least twelve months from the reporting date.

These liabilities are initially recognised at their fair value, adjusted for any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that exactly matches the carrying amount of the instrument to the projected flow of estimated future cash payments up to the maturity of the liability.

However, trade payables maturing within twelve months where there is no contractual interest rate are both initially recognised and subsequently measured at face value when the effect of not discounting the cash flows is not material.

If existing debts are renegotiated, it is considered that there are no substantial modifications of the terms of the financial liability when the lender in the new loan is the same as that which granted the initial loan and the present value of the cash flows, including net commissions and fees, does not differ by more than 10% from the discounted present value of the remaining cash flows of the original financial liability calculated using that same method.

j. Current and deferred taxes

The income tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Both the current and deferred tax expense (tax income) are recognised in profit or loss. However, the tax effect relating to items recognised directly in equity is also recognised in equity.

Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated using the liability method, for all temporary differences that arise between the tax base of assets and liabilities and their carrying amounts. However, if the deferred taxes arise from the initial recognition of an asset or liability in a transaction other than a business combination and which at the time of transaction affected neither the accounting profit (loss) nor the taxable profit (tax loss), they are not recognised. Deferred taxes are measured by applying the tax laws and tax rates that have been enacted or substantively enacted at the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is considered probable that the Corporation will have taxable profits in the future against which the deferred tax assets can be utilised.

Pursuant to Article 52.5 of Law 34/1998, the Corporation is exempt from income tax on the income arising from financial contributions made by its members. Similarly, any income that the Corporation may obtain from disposals of strategic stocks is exempt from income tax. Such income may not be distributed to the members or used in loans or similar financial transactions with them. Therefore, the current income tax expense is calculated on the basis of the accounting profit before tax, excluding the exempt income described above, increased or decreased, as appropriate, by the permanent differences from taxable profit, net of tax relief and tax credits, excluding tax withholdings and pre-payments.

Based on the criterion of probability of obtainment of future taxable profits, the Corporation does not recognise any tax loss carryforwards.

k. Employee benefit obligations

Defined contribution pension plans

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

For defined contribution plans, the Corporation pays contributions to pension insurance plans managed publicly or privately on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Corporation does not have obligation to make additional payments. The contributions are recognised as employee benefits on an accrual basis. The contributions paid in advance are recognised as an asset to the extent that it will lead to will lead to a cash refund or a reduction in future payments.

The Corporation recognises a liability for the contributions to be made when there are accrued unpaid contributions at the reporting date.

Termination benefits

Termination benefits are paid to employees whose employment contract has been terminated at the Corporation's decision before the normal retirement age or where the employee agrees to resign voluntarily in exchange for such benefits. The Corporation recognises these benefits when it is demonstrably committed to the termination of serving employees in accordance with a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer to encourage voluntary redundancy. The benefits that will not be paid in the twelve months following the balance sheet date are discounted to their present value.

The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

l. Provisions and contingent liabilities

Provisions for litigation are recognised when the Corporation has a present obligation, whether legal or constructive, as a result of past events with respect to which it is probable that an outflow of resources will be required to settle the obligation and the amount thereof can be estimated reliably. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

Provisions for obligations maturing within one year for which the effect of discounting is not material are not discounted.

Where it is expected that a portion of the expenditure required to settle the obligation will be reimbursed by a third party, the reimbursement is recognised as an independent asset, provided that the reimbursement is almost certain.

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Corporation. Contingent liabilities are not recognised, but rather are disclosed.

m. Revenue recognition

Revenue is recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and amounts received for the account of third parties such as VAT.

Revenue is measured at the fair value of the consideration receivable and represents the amounts receivable for the goods and services provided in the normal course of the Corporation's business, net of returns, discounts, refunds and VAT.

The Corporation recognises revenue when it can be measured reliably, it is probable that the future economic benefits will flow to the Corporation and the specific conditions for each of the activities, detailed below, are met. It is not considered that the amount of revenue can be measured reliably until all the contingencies relating to the sale have been resolved. The Corporation bases its estimates on historical results and takes into account the type of customer, the type of transaction and the specific terms and conditions of each agreement.

Services

The Corporation's revenue arises from fees paid by operators. Thus, pursuant to the provisions of Royal Decree 1716/2004, strategic stocks are funded by the obligated entities defined in Article 7 (Operators, distributors and consumers of liquid hydrocarbons) through the payment of a unit fee per metric tonne or cubic metre sold or consumed.

To fund the Corporation's expenses on activities relating to liquefied petroleum gases and natural gas, an annual fee is established, to be paid by the obligated entities defined in Article 8 (Operators, distributors and consumers of LPG) and in Article 15 (Retailers and consumers of natural gas), based on their participation in the market.

Revenue from sales

The Corporation acquires and sells strategic stocks by means of purchase and sale tenders open to all its members. The terms and conditions established are specific to each tender and the tender is awarded to the best bid pursuant to the previously established criteria.

Interest income

Interest income is recognised using the effective interest method. When an account receivable becomes impaired, the Corporation reduces the carrying amount to its recoverable amount, discounting the estimated future cash flows at the original effective interest rate of the instrument, and continues to recognise the discount as a reduction of interest income.

The interest income on loans that have become impaired are recognised by using the effective interest method.

n. Leases

Operating leases

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognised in income on an accrual basis over the lease term using the straight-line method.

o. Related party transactions

Article 6 of Chapter II of the Corporation's bylaws contained in the Schedule to Royal Decree 1716/2004 states that “All wholesale petroleum product operators in Spain, including liquid petroleum gas operators, regulated by Articles 42 and 45 of Law 34/1998, of 7 October, as well as natural gas shippers and retailers regulated by Article 58 a) and d) of Law 34/1998, obligatorily become CORES members”. Membership is acquired automatically as of the date obligated entities communicate the commencement of their activity to the Ministry of Energy, Tourism and the Digital Agenda.

In view of the Corporation's nature and legal object, the obligated entity members of the Corporation that are members of the Board of Directors were considered to be related parties. Related party transactions are recognised at fair value.

p. Environmental assets and liabilities

The expenses relating to decontamination and restoration of polluted sites, waste disposal and other expenses arising from compliance with environmental legislation are recognised in the year in which they are incurred, unless they relate to the cost of items of property, plant and equipment acquired to be used on a lasting basis and form part of the Corporation's assets, in which case they are recognised under the corresponding property, plant and equipment line items and depreciated using the same criteria.

5.4. Financial risk management

a. Financial risk factors

The activities of the Corporation are exposed to financial risks relating mainly to market risk, namely interest rate risk, credit risk and liquidity risk. The Corporation is not exposed to commodity price risk (see Note 5.3-g) or foreign currency risk, since it does not conduct transactions in currencies other than the euro. The Corporation's global risk management programme focuses on the uncertainty of the financial markets and aims to minimise the potential adverse effects on its financial returns.

CORES's Board of Directors establishes the guidelines of the financial risk management policy. These guidelines are conveyed by the chairman to the Corporation's various areas of activity, where the risks that might affect the achievement of the Corporation's business objectives are concentrated.

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

The cost of debt is a significant cost within the structure of the Corporation, due to the high level of borrowings it has to finance the assets required to carry on its activity; this is why interest rate risk arises on these borrowings.

In order to ensure that the cost passed on to the operators in this connection is as close as possible to market cost and, therefore, that the cost is recovered through the fees charged at any time, the Corporation's Board of Directors has adopted the policy that funding shall bear interest at floating rates. This policy generates variations in costs based on fluctuations in interest rates and the macroeconomic situation, which determines the risk premium required by the markets at any time.

The Corporation reduces the risk by conservatively estimating fluctuations in rates and the financial margin in its budget and actively managing the diversification of instruments and terms to maturity in order to be able to guarantee not only that the payment of the interest on the borrowings, but also for it to be at the most competitive rate in the market at any time. If subsequently the variation in rates is very significant, the Corporation may review the budget and, pursuant to Royal Decree 1716/2004, have recourse to the mechanism for the approval of an extraordinary fee in order to guarantee its financial solvency.

Credit and liquidity risk

Credit risk arises from derivative financial instruments and deposits at banks and financial institutions, as well as other debts, including outstanding accounts receivable and committed transactions. With regard to banks and financial institutions, only entities of renowned prestige and solvency are accepted. In view of the nature of the Corporation, this risk is not significant because the fees are billed and received in the same month. Since, pursuant to Oil and Gas Law 34/1998, of 7 October, payment of the fees is mandatory, the amount of non-payment is not significant and, accordingly, there were no material balances receivable at year-end. The Corporation's non-payment risk is very low since a serious or very serious infringement arises for the operators that cease to pay their legally established fees, and even disqualification as an operator for non-payment of fees.

Prudent management of liquidity risk entails the maintenance of sufficient cash and marketable securities, availability of financing through a sufficient level of committed credit facilities and the capacity to settle market positions.

Each year, following a proposal from CORES based on a budget comprising the forecast income and expenses for the corresponding year, the Ministry of Energy, Tourism and the Digital Agenda sets the fees that the members of CORES must pay for the maintenance of strategic stocks, the main objective of which is to cover the Corporation's expected costs.

Also, pursuant to Article 25.3 of Royal Decree 1716/2004, on an exceptional basis, when the correct achievement of the Corporation's goals makes it advisable, and always in order to guarantee its financial solvency, extraordinary fees may be established.

b. Fair value measurement

The fair value of financial instruments not listed on an active market is determined using valuation techniques. The Corporation uses a variety of methods and employs assumptions based on the market conditions existing at each balance sheet date. The fair value of the interest rate swaps was calculated as described in Note 5.2-d. It is considered that the carrying amount of trade receivables and payables approximates their fair value.

5.5. Intangible assets

The detail of "Intangible Assets" and of the changes therein is as follows:

Units: Thousands of Euros

	Intellectual Property	Computer Software	TOTAL
Balance at 01/01/16			
Cost	**12**	**84**	**96**
Accumulated amortisation	**(8)**	**(78)**	**(86)**
Carrying amount	**4**	**6**	**10**
Amortisation charge	(3)	(3)	(6)
Balance at 31/12/16			
Cost	**12**	**84**	**96**
Accumulated amortisation	**(11)**	**(81)**	**(92)**
Carrying amount	**1**	**3**	**4**

Units: Thousands of Euros

	Intellectual Property	Computer Software	TOTAL
Balance at 01/01/15			
Cost	**12**	**110**	**122**
Accumulated amortisation	**(6)**	**(95)**	**(101)**
Carrying amount	**6**	**15**	**21**
Disposals	-	(26)	(26)
Derecognition - accumulated amortisation	-	26	26
Amortisation charge	(2)	(9)	(11)
Balance at 31/12/15			
Cost	**12**	**84**	**96**
Accumulated amortisation	**(8)**	**(78)**	**(86)**
Carrying amount	**4**	**6**	**10**

No impairment losses were recognised on intangible assets in 2016 and 2015. At 31 December 2016, fully amortised intangible assets still in use amounted to EUR 77 thousand (31 December 2015: EUR 55 thousand).

5.6. Property, plant and equipment

The detail of “Property, Plant and Equipment” and of the changes therein is as follows:

Units: Thousands of Euros

	Plant	Other Fixtures	Furniture	Computer Hardware	TOTAL
Balance at 01/01/16					
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**
Additions	-	-	-	44	44
Disposals	-	-	-	(8)	(8)
Derecognition - accumulated depreciation				8	8
Depreciation charge	(2,707)	(25)	(19)	(42)	(2,793)
Balance at 31/12/16					
Cost	**52,182**	**255**	**191**	**251**	**52,879**
Accumulated depreciation	**(25,619)**	**(87)**	**(59)**	**(175)**	**(25,940)**
Carrying amount	**26,563**	**168**	**132**	**76**	**26,939**

Units: Thousands of Euros

	Plant	Other Fixtures	Furniture	Computer Hardware	TOTAL
Balance at 01/01/15					
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)
Derecognition - accumulated depreciation	-	-	3	16	19
Depreciation charge	(2,707)	(25)	(20)	(40)	(2,792)
Balance at 31/12/15					
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**

The plant relates mainly to storage tanks located in Cartagena and Puertollano.

In 2016 and 2015 no impairment losses were recognised on any items of property, plant and equipment.

In 2016 items of property, plant and equipment with a gross amount of EUR 8 thousand (2015: EUR 19 thousand) and accumulated depreciation of EUR 8 thousand (2015: EUR 19 thousand) were derecognised.

Fully depreciated items of property, plant and equipment still in use amounted to EUR 69 thousand (2015: EUR 39 thousand).

The Corporation has taken out several insurance policies to cover the risks to which its property, plant and equipment are subject. It is considered that these policies sufficiently cover such risks.

5.7. Leases

The detail of the operating lease payments recognised as an expense in 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Minimum lease payments	134,137	135,793
Total, net	**134,137**	**135,793**

The expense recognised in the statement of profit or loss in 2016, due mainly to the lease of petroleum product storage services, amounted to EUR 133,725 thousand (2015: EUR 135,369 thousand) and was recognised under “Outside Services”. This amount decreased as a result of the holding of two tenders for the relocation and storage of a portion of the aforementioned contracts. In future years the rent payable in this connection will fluctuate in accordance with the volume of strategic reserves to be held under the future obligation and the market price for the lease of these services when the contracts are renewed.

5.8. Analysis of financial instruments

a. Analysis by category

The carrying amount of each of the financial instrument categories established in the recognition and measurement standard for financial assets is as follows:

Units: Thousands of Euros

	Loans, Derivatives and Other		Total	
	2016	**2015**	**2016**	**2015**
Non-current financial assets:				
Hedging derivatives	58,417	54,448	58,417	54,448
Loans and receivables	52	53	52	53
Total non-current	**58,469**	**54,501**	**58,469**	**54,501**
Current financial assets:				
Loans and receivables	433	67	433	67
Hedging derivatives	-	443	-	443
Total current	**433**	**510**	**433**	**510**
Total financial assets	**58,902**	**55,011**	**58,902**	**55,011**

The carrying amount of each of the financial instrument categories established in the recognition and measurement standard for financial liabilities is as follows:

Units: Thousands of Euros

	Debt Instruments and Other Marketable Securities		Bank Borrowings		Other		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Non-current financial liabilities:								
Accounts payable	1,153,610	1,098,361	610.0002	668,030	-	-	1,763,612	1,766,391
Total non-current	**1,153,610**	**1,098,361**	**610,002**	**668,030**	**-**	**-**	**1,763,612**	**1,766,391**
Current financial liabilities:								
Accounts payable	-	349,809	1,155	33,573	21,162	22,899	22,317	406,281
Total current	**-**	**349,809**	**1,155**	**33,573**	**21,162**	**22,899**	**22,317**	**406,281**
Total financial liabilities	**1,153,610**	**1,448,170**	**611,157**	**701,603**	**21,162**	**22,899**	**1,785,929**	**2,172,672**

b. Analysis by maturity

The amounts of financial instruments with fixed or determinable maturity, classified by year of maturity at 2016 year-end, are as follows:

Units: Thousands of Euros

	2017	2018	2019	2020	2021 and subsequent years	Total
Financial assets	-	45,397	-	-	13,020	58,417
Accounts receivable from associates	369	-	-	-	-	369
Other financial assets	64	-	-	-	52	116
Total financial assets	**433**	**45,397**	**-**	**-**	**13,072**	**58,902**
Debt instruments and other marketable securities	-	545,397	-	-	608,213	1,153,610
Bank borrowings	1,155	-	125,002	125,000	360,000	611,157
Payable to associates	8,864	-	-	-	-	8,864
Payable to suppliers - associates	137	-	-	-	-	137
Payable to suppliers and other	12,161	-	-	-	-	12,161
Total financial liabilities	**22,317**	**545,397**	**125,002**	**125,000**	**968,213**	**1,785,929**

5.9. Loans and receivables

The detail of “Loans and Receivables” at 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Long-term loans and receivables	**52**	**53**
Long-term guarantees given	52	53
Short-term loans and receivables	**433**	**67**
Trade receivables from associates	1,903	924
Write-down of trade receivables	(1,534)	(923)
Sundry accounts receivable	-	2
Employee receivables	64	64
Total loans and receivables	**485**	**120**

Impairment losses due to credit risk

The Corporation does not consider that there are any impairment losses on any of the current and non-current loans and receivables included in the foregoing table additional to the EUR 1,534 thousand write-down indicated (2015: EUR 923 thousand).

The changes in the allowances representing the impairment losses in 2016 and 2015 were as follows:

Units: Thousands of Euros

	Balance at 01/01/15	Additions	Reductions	Balance at 31/12/15	Additions	Reductions	Balance at 31/12/16
Allowance for doubtful debts	(1,001)	(7)	85	(923)	(628)	17	(1,534)

5.10. Derivative financial instruments

The detail of “Derivatives” at 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
	Assets	**Assets**
Interest rate swaps - cash flow hedges	-	50,590
Interest rate swaps - fair value hedges	58,417	3,858
NON-CURRENT	**58,417**	**54,448**
Interest rate swaps - cash flow hedges	-	443
CURRENT	**-**	**443**
Total	**58,417**	**54,891**

The hedging financial derivatives open at 2016 year-end are classified at long term in accordance with their maturity.

Interest rate swaps:

The notional principal amounts of the interest rate swaps outstanding at 31 December 2016 amount to EUR 750,000 thousand (2015: EUR 1,100,000 thousand).

The Corporation has arranged fixed-to-floating interest rate swaps in connection with the two debenture issues launched in 2008 for EUR 500,000 thousand and in 2014 for EUR 250,000 thousand (see Note 5.16).

As a result of the debenture issue launched in 2008, the Corporation entered into three interest rate swaps, with BBVA for a notional amount of EUR 167,000 thousand, with Société Générale for a notional amount of EUR 166,000 thousand and with Unicredit for a notional amount of EUR 167,000 thousand.

In turn, as a result of the debenture issue launched in 2014, the Corporation entered into two interest rate swaps with HSBC and Société Générale, each for a notional amount of EUR 125,000 thousand.

The economic effect of these interest rate swaps is to convert borrowings at fixed rates into floating-rate borrowings (fair value hedges).

The effective portion of the changes in fair value of the fair-value hedging derivatives and the changes in fair value of the hedged liabilities (EUR 3,969 thousand in 2016 and EUR 2,222 thousand in 2015) are recognised in the statement of profit or loss.

5.11. Inventories

The value of the Corporation's inventories at 31 December 2016 and 2015 was as follows:

Units: Thousands of Euros

Product	2016	2015
Gasolines	94,993	98,293
Gas oils and kerosenes	1,296,729	1,291,715
Fuel oils	20,226	20,226
Crude oil	468,407	576,627
Total inventories	**1,880,355**	**1,986,861**

All of the inventories held by the Corporation at 31 December 2016 and 2015 relate to strategic reserves.

At 31 December 2016, the market value of the inventories exceeded the carrying amount by around EUR 1,056,287 thousand (2015: EUR 13,445 thousand).

5.12. Cash and cash equivalents

The detail of “Cash and Cash Equivalents” at 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Cash and cash equivalents	60,015	351,004
Cash and cash equivalents	**60,015**	**351,004**

As a result of the bond issue launched in November 2015 (see Note 5.16-a), the Corporation had a temporary cash surplus at 31 December 2015, with which it repaid the bonds maturing in 2016.

The cash at 31 December 2016 arose from sales of surplus strategic reserves as part of the sale plan approved together with the strategic plan in 2016. This amount will be used to repay debt in 2017.

5.13. Capital

The Corporation does not have any share capital and, accordingly, it does not have any shareholders since, under its bylaws (Schedule to Royal Decree 1716/2004), the financial resources required to pursue its objects are contributed by the obligated entities and, where appropriate, by raising funds in the financial markets.

The members of the Corporation are obligatorily assigned their status as such, by legal requirement, as of the start date of their activity (wholesale distribution of petroleum products or retail distribution of natural gas), but they do not have any ownership rights vis-à-vis CORES.

5.14. Reserves

The detail of "Reserves" at 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Special reserves	137,803	135,717
Bylaw reserves	59,370	59,262
Total	**197,173**	**194,979**

a. Special reserves

These reserves arise from disposals of strategic reserves since, pursuant to Article 52.5 of Law 34/1998, “the income the Corporation may obtain from the disposal of strategic reserves may not be distributed to the members”.

b. Bylaw reserves

Article 13 of the Corporation's bylaws (Schedule to Royal Decree 1716/2004) states that, in the event that revenue from fees should exceed the expenses actually incurred, the Board of Directors may resolve to make appropriations to a financial reserve until the balance thereof reaches, as a minimum, an amount equal to one-quarter of the ordinary expenses in the related year.

In application of these provisions, at its meeting held on 30 June 2016, the General Assembly of the Corporation resolved, at the proposal of the Board of Directors, to distribute EUR 2,086 thousand of the profit for 2015 to the special reserve and EUR 108 thousand to the bylaw reserve.

5.15. Profit for the year

a. Proposed distribution of profit

The distribution of the profit for 2016 proposed by the members of the Corporation’s Board of Directors is as follows:

Units: Thousands of Euros

	2016
Basis of distribution	
Profit for the year	40,380
Distribution to	
Special reserve	40,207
Bylaw reserve	173
Total	**40,380**

b. Restrictions on the distribution of profits

Article 29 of Royal Decree 1716/2004 establishes the following restriction on the distribution of profits:

“The gains arising from the sale or exchange of strategic stocks performed pursuant to the provisions of Article 36 may not be distributed, and priority will be given to their use for the repayment of borrowings arranged by Corporation de Reservas Estratégicas de Productos Petrolíferos”.

Should the Corporation's activities give rise to a loss, its Board of Directors may have recourse to the contributions of the members and other obligated entities in order to repay bonds, provided that no reserves are available for such repayment. If reserves are available, priority will be given to using them for this purpose.

5.16. Accounts payable

The detail of the accounts payable at 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Non-current accounts payable	**1,763,612**	**1,766,391**
Bank borrowings	610,002	668,030
Debentures and bonds issued	1,153,610	1,098,361
Current accounts payable	**22,317**	**406,281**
Debentures and bonds issued	-	349,809
Current bank borrowings	-	30,050
Current interest on bank borrowings	1,155	3,523
Payable to suppliers - associates	137	137
Trade payables for services received	12,149	14,696
Current payables to associates	8,864	8,054
Other financial liabilities	12	12
Total	**1,785,929**	**2,172,672**

There are no material differences between the carrying amounts and fair values of the non-current payables included in this Note.

The carrying amount of the current payables approximates their fair value since the effect of discounting is not material.

The current payables to associates include mainly the amount to be refunded due to the excess fees received.

Disclosures on the periods of payment to suppliers. (Additional Provision Three “Disclosure obligation” provided for in Law 15/2010, of 5 July).

The detail of the disclosures required in relation to the average period of payment to suppliers is as follows:

	2016	2015
	Days	**Days**
Average period of payment to suppliers	30	27
Ratio of transactions settled	30	29
Ratio of transactions not yet settled	16	4

Units: Thousands of Euros

	2016	2015
Total payments made	140,862	141,248
Total payments outstanding	-	10,298
Total	**140,862**	**151,546**

a. Debentures and bonds

On 23 April 2008, a series of 5,000 non-convertible debentures with a face value of EUR 100,000 each was launched. The issue has a fixed interest rate for debenture holders of 4.5%. These bonds mature after ten years, i.e. in 2018.

On 19 April 2013, a series of 3,500 non-convertible debentures with a face value of EUR 100,000 each was launched to refinance on maturity the first bond issue launched by CORES in 2003. The issue had a fixed interest rate for debenture holders of 3.25%. These bonds matured after three years, i.e. on 19 April 2016.

On 16 October 2014, a series of 2,500 non-convertible debentures with a face value of EUR 100,000 each was launched to refinance bank loans and credit facilities maturing in 2014 and 2015. The issue has a fixed interest rate for debenture holders of 2.50%. These bonds mature after ten years, i.e. in 2024.

On 27 November 2015, a series of 3,500 non-convertible debentures with a face value of EUR 100,000 each was launched to refinance on maturity the bond issue launched in 2013 that matured in 2016. The issue has a fixed interest rate for debenture holders of 1.5%. These bonds mature after seven years, i.e. in 2022.

All of the aforementioned debentures were issued with associated interest rate swaps (see Note 5.10), except for the issue launched in 2015. The interest accrued in this connection amounted to EUR 37,948 thousand in 2016 (2015: EUR 40,562 thousand).

b. Bank borrowings

The Corporation had been granted the following loans and credit facilities at the end of 2016 and 2015:

Units: Thousands of Euros

	2016	2015
Non-current bank loans	610,002	668,030
Current bank loans	1,155	33,573
Total	**611,157**	**701,603**

In 2016 the Corporation repaid the short-term loan amounting to EUR 30,050 thousand. Also, partial early repayments were made, amounting to EUR 18,030 thousand and EUR 40,000 thousand, on two non-current loans.

The Corporation had accrued interest payable of EUR 1,155 thousand in 2016 (2015: EUR 3,523 thousand).

The detail, by type and maturity, of the aforementioned loans and credit facilities at the end of 2016 and 2015 is as follows:

Units: Thousands of Euros

	Maturity of Less than 1 Year	Maturity of Between 1 and 5 Years	Maturity of More than 5 Years	Total
Bank borrowings	-	550,002	60,000	610,002
Accrued interest payable	1,155	-	-	1,155
Total	**1,155**	**550,002**	**60,000**	**611,157**

Year: 2016

Units: Thousands of Euros

	Maturity of Less than 1 Year	Maturity of Between 1 and 5 Years	Maturity of More than 5 Years	Total
Bank borrowings	30,050	268,030	400,000	698,080
Accrued interest payable	3,523	-	-	3,523
Total	**33,573**	**268,030**	**400,000**	**701,603**

Year: 2015

In 2016 the interest rates on the loans and credit facilities ranged from Euribor + 0.10% to Euribor + 2.10%.

In 2016 the interest accrued on these financial debt instruments amounted to EUR 435 thousand (2015: EUR 1,097 thousand).

At 31 December 2016 and 2015, the Corporation had not pledged any assets as security for these loans.

5.17. Other provisions

At 31 December 2016 and 2015, the Corporation was not aware of any events or circumstances requiring the recognition of a provision.

5.18. Income tax and tax matters

Income tax is calculated on the basis of the accounting profit determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit.

In accordance with the provisions of Article 52.5 of Law 34/1998, the Corporation is exempt from income tax on the income arising from its principal activities.

The reconciliation of the net income and expense for the year to the taxable profit for income tax purposes in 2016 and 2015 is as follows:

Units: Thousands of Euros

Statement of Profit or Loss

	Increase	Decrease	
Net income and expense for the year			**40,380**
Income tax	53	-	**53**
Income exempt pursuant to Article 52.5 of Law 34/1998	264,192	(304,413)	**(40,221)**
Taxable profit			**212**

Year: 2016

Units: Thousands of Euros

Statement of Profit or Loss

	Increase	Decrease	
Net income and expense for the year			**2,194**
Income tax	29	-	**29**
Income exempt pursuant to Article 52.5 of Law 34/1998	168,652	(170,757)	**(2,105)**
Taxable profit			**118**

Year: 2015

In the absence of other legislation implementing the exemption envisaged in Article 52.5 of Law 34/1998, the Corporation has interpreted (“by logical inference”) that only the income arising from sources other than gains on disposals of strategic reserves and financial contributions made by obligated entities is subject to income tax.

The current income tax expense is the result of applying a 25% tax rate (2015: 25%) to taxable profit. The withholdings and pre-payments made in 2016 amounted to EUR 26 thousand (2015: EUR 9 thousand). The amount refundable by the tax authorities in this connection amounted to EUR 18 thousand (2015: EUR 3 thousand payable to the tax authorities).

The Corporation has the last four years open for review by the tax authorities for the main taxes applicable to it. No additional material liabilities are expected to arise in the event of a tax audit.

The changes in deferred tax assets and liabilities in 2016 and 2015 were as follows:

Units: Thousands of Euros

	Balance at 01/01/15	Increase	Balance at 31/12/15	Decrease	Balance at 31/12/16
Deferred tax liabilities:	**(17,306)**	**4,548**	**(12,758)**	**12,758**	**-**
Financial derivatives	(17,306)	4,548	(12,758)	**12,758**	**-**

5.19. Income and expenses

a. Revenue

The Corporation's revenue (see Note 5.3-m) amounted to EUR 304,329 thousand in 2016 (2015: EUR 170,671 thousand). Since all the Corporation's activity is carried on in Spain, it is not possible to segregate revenue by geographical market.

b. Procurements

The changes in the various strategic reserve accounts in 2016 gave rise to a fall in their carrying amount of EUR 106,506 thousand compared with 2015, due to the net decrease in strategic reserves of 525,973 m^3 (broken down into falls of 40,463 m^3 in gasolines, 4,290 m^3 in middle distillates, and 481,220 m^3 in crude oils), the non-replacement of contractual product and crude oil losses and the sale of a quantity of gasolines (39,731 m^3) and crude oils (477,810 m^3).

c. Staff costs

Units: Thousands of Euros

	2016	2015
Wages, salaries and similar expenses	2,524	2,465
Employee benefit costs:	1,172	1,036
Contributions to and provisions for pensions	178	172
Other employee benefit costs	834	759
Attendance fees	160	105
Total	**3,696**	**3,501**

“Wages, Salaries and Similar Expenses” did not include any termination benefits in 2016 or 2015.

The average number of employees and members of the Board of Directors, by category, in 2016 and 2015 was as follows:

	2016	2015
Members of the Board of Directors (*)	12	11 (**)
Executives	5	5
Supervisors, line personnel and clerical staff	41	40
Total	**58**	**56**

(*) Including eleven members of the Board of Directors. The chairman of the Corporation is included in this category, as he is a member and the chairman of the Board.

(**) Average figure, since from the Assembly held in December 2014 until the Assembly held in June 2015, two positions were vacant.

Also, the headcount at the end of 2016 and 2015, by category and gender, was as follows:

	2016		Men	Women	Total
Members of the Board of Directors	12	**Members of the Board of Directors**	10	2	12
Executives	5	**Executives**	2	3	5
Supervisors, line personnel and clerical staff	42	**Supervisors, line personnel and clerical staff**	22	20	42
Total	**59**		**35**	**24**	**59**

	2015		Men	Women	Total
Members of the Board of Directors	11	**Members of the Board of Directors**	8	3	11
Executives	5	**Executives**	2	3	5
Graduates, line personnel and clerical staff	41	**Supervisors, line personnel and clerical staff**	20	21	41
Total	**57**		**30**	**27**	**57**

There were no employees at the Corporation in 2016 with a disability equal to or greater than 33%.

5.20. Financial loss

The detail of the finance income and finance costs for the years ended 31 December 2016 and 2015 is as follows:

Units: Thousands of Euros

	2016	2015
Finance income	**227**	**137**
Other finance income	227	137
Finance costs	**(13,233)**	**(18,061)**
On debts to third parties:		
Interest on debentures and bonds	(12,126)	(16,236)
Interest on loans	(434)	(1,097)
Other finance costs	(673)	(728)
Exchange differences	**(1)**	**(1)**
Financial loss	**(13,007)**	**(17,925)**

5.21. Commitments

At 31 December 2016, the Corporation had not provided any guarantees to third parties.

5.22. Remuneration of the Board of Directors and senior management

As established in the bylaws, CORES's governing bodies are the General Assembly and the Board of Directors. The General Assembly's main duties are the approval of the financial statements and the proposal of CORES's fees and, accordingly, it usually meets twice a year.

Pursuant to the Corporation's bylaws approved by Schedule to Royal Decree 1716/2004, CORES's Board of Directors comprises the chairman, who is appointed by the Ministry of Energy, Tourism and the Digital Agenda, and eleven directors, seven of whom are elected by the Corporation's members every five years at the General Assembly.

The duties of the Board of Directors, as established in Article 12 of the Corporation's bylaws, consist mainly of the control of CORES's activities and the determination of general policy, as well as other matters of importance for the Corporation. In this connection, the Board of Directors' duties include, inter alia, the authorisation for issue of the financial statements and the approval of the fee proposal.

Based on the foregoing, in 2016 and 2015, since senior management is considered to comprise the members of the Board of Directors with executive functions, the executives were not included in this section.

a. Remuneration paid to members of the Board of Directors:

The remuneration earned by the members of the Board of Directors in 2016 amounted to EUR 414 thousand (2015: EUR 340 thousand).

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

As regards life insurance premiums, the Corporation has an insurance policy covering death for which premiums totalling EUR 6.3 thousand were paid in 2016 (2015: EUR 4.7 thousand).

The amount of the premiums paid under the third-party liability insurance policy for the members of the Board of Directors was EUR 13 thousand (2015: EUR 14 thousand).

b. Remuneration and loans to senior management

No remuneration, advances or loans not included in Note 5.22-a above were granted to senior management in 2016 or 2015.

c. Other disclosures

For the purpose of complying with the provisions of Article 229 of the Spanish Limited Liability Companies Law, this Corporation considers that:

The obligation contained in this Article, which was approved by Legislative Royal Decree 1/2010, of 2 July, is applicable, subject to a better opinion, to public limited liability companies, i.e. companies whose capital is divided into shares and whose shareholders are not personally liable for the companies' debts, and private limited liability companies.

CORES is not a company, it does not have any share capital and, accordingly, it does not have any shareholders. Therefore, this obligation is not applicable.

5.23. Other transactions with related parties

In view of the Corporation's nature and legal object, the obligated entity members of the Corporation that are members of the Board of Directors were considered to be related parties.

Acquisitions of goods and services from related parties are made on normal market terms and conditions and relate mainly to the provision of storage services for the stocks of petroleum products constituting the object of the Corporation's main activity, in compliance with its principal function established in Article 52 of Law 34/1998 and in Royal Decree 1716/2004. The Corporation may also perform sales of crude oil and petroleum products.

In particular, the maintenance transactions, including the lease under operating lease arrangements of the storage facilities for strategic stocks, performed by CORES with members of the Corporation that are also members of its Board of Directors amounted to EUR 59,933 thousand in 2016 (2015: EUR 62,443 thousand), representing 45% of the total (2015: 46%); the remaining 55% (2015: 54%) were arranged with logistics operators that are not members of the Corporation or, therefore, members of the Board of Directors.

The accounts receivable from related parties of EUR 138 thousand (2015: EUR 1 thousand) arose from sales to related parties, whereas in 2015 they arose from fees billed for the provision of services for the constitution, maintenance and management of strategic reserves. The accounts receivable are not secured and bear interest (the legal interest rate plus three percentage points) due to the delay in payment of fees to the Corporation by the obligated entities. In 2016 surplus reserves were sold to related parties (operators) for EUR 144,669 thousand (2015: EUR 3,322 thousand).

The accounts payable to related parties of EUR 137 thousand (2015: EUR 137 thousand) arose from purchases from related parties, product specification changes and exchanges with related parties. No purchases, product specification changes or replacement of product losses took place in 2016 or 2015. “Current Payables to Associates” on the liability side of the balance sheet includes the excess fees contributed by the operators/obligated entities, which are refunded in the following year. At 2016 year-end, the balance of this line item amounted to EUR 8,671 thousand (2015: EUR 7,700 thousand), of which EUR 6,367 thousand corresponded to related parties (2015: EUR 5,720 thousand).

5.24. Information on the environment

At 31 December 2016, there were no assets of significance used in the protection and improvement of the environment, and no significant expenses were incurred in this connection in 2016.

The Corporation considers that there are no significant contingencies in relation to the protection and improvement of the environment and did not consider it necessary to recognise any provisions for environmental contingencies and charges at 31 December 2016.

The Corporation did not receive any environmental grants in 2016.

5.25. Fees paid to auditors

The fees, in thousands of euros, earned by the various companies using the Deloitte, S.L. brand in 2016 were as follows:

	2016	2015 (*)
Audit and related services	30	15
Other services	33	33
Total	**63**	**48**

(*) Financial statements audited by other auditors.

5.26. Events after the reporting period

From 2016 year-end to the date on which these financial statements were authorised for issue, no events took place which might affect the Corporation's financial position.

5.27. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Corporation in Spain (see Note 5.2-a). Certain accounting practices applied by the Corporation that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

6. 2016 directors' report

6.1. Nature and functions

The legal regime applicable to Corporación de Reservas Estratégicas de Productos Petrolíferos consists of Articles 51 and 52 of Oil and Gas Industry Law 34/1998, of 7 October, and Royal Decree 1716/2004, of 23 July.

As established in the aforementioned legislation, CORES is a public-law corporation with separate legal personality that operates in accordance with private law and is under the aegis of the Spanish Central Government, exercised through the Ministry of Energy, Tourism and the Digital Agenda.

It is financed through the contributions made by obligated entities, although it may also seek funding in the financial markets.

The functions performed by CORES, which are detailed in Note 5.1 to the financial statements, are basically the acquisition, constitution, maintenance and management of such oil and gas reserves, including natural gas reserves, as may be determined by regulation, as strategic stocks; the control of the minimum security stocks of petroleum products, liquefied petroleum gases (LPG) and natural gas that the obligated entities are required to maintain; the monitoring of the obligation to diversify natural gas supplies and the preparation of oil and gas industry statistics.

As detailed in the directors' report for 2015, that year was of particular significance since the legal regime applicable to CORES was modified through Law 8/2015, of 21 May, amending Oil and Gas Industry Law 34/1998, of 7 October. Law 8/2015 established the legal provisions required to enable the Corporation to hold a portion, to be determined by regulation, of the strategic natural gas reserves.

The aforementioned legal amendment was implemented through Royal Decree 984/2015, of 30 October, regulating the organised gas market and third-party access to natural gas system facilities, which also envisaged the participation of CORES in the natural gas system, and introduced other important amendments to Royal Decree 1716/2004, regulating the Corporation.

In 2016 the following measures were adopted in relation to the above-mentioned amendments made to CORES' legal regime in 2015:

- By virtue of the Resolution of 8 March 2016 of the Directorate General of Energy and Mining Policy, the standard agreement for the increase in strategic petroleum product stocks constituted on behalf of obligated entities was approved, to be used in the circumstance established in Article 14.4 of Royal Decree 1716/2004, as amended by Royal Decree 984/2015, i.e. to make it possible for CORES, on a flexible basis, to hold petroleum product stocks for Spanish obligated entities that request it to do so, over and above its 42-day stockholding obligation vis-à-vis all obligated entities, up to a quantity equal to 100% of each entity's obligation, provided that the Corporation has sufficient reserves.

- In application of the new system for the allocation of reserves by CORES to the obligated entities, two allocation processes were carried out, the first in the opening quarter of 2016, for allocations of reserves in the period from April 2016 to March 2017; and the second, in the last quarter of 2016, for quarterly allocations relating to the first quarter of 2017.

- Also, the Board of Directors of the Corporation, at its meeting on 21 April 2016, approved CORES' first Strategic and Operating Plan, as established in Article 26.1 of Royal Decree 1716/2004 (as amended by Royal Decree 984/2015), which details how CORES will perform its functions in an effective and efficient manner. The updated version of this Plan was approved at the Board of Directors Meeting on 22 December 2016.

- In keeping with the objectives set in CORES' first Strategic Plan, in May 2016 the Board of Directors approved, and submitted to the Ministry of Energy, Tourism and the Digital Agenda, the plan for the sale of its surplus strategic stocks required by Royal Decree 984/2015.

- Lastly, in accordance with the aforementioned strategic and sales plans approved by the Board of Directors of CORES, various transactions for the sale of strategic stocks and the contracting of storage capacity were carried out, by means of the relevant tenders, in the last quarter of 2016.

The members of CORES at 31 December 2016, disregarding the existence of any consolidated groups, were as follows:

- In their capacity as operators authorised for the wholesale distribution of petroleum products: 164 business entities (in 2016, 31 new members joined CORES and 25 existing members left).

- In their capacity as operators authorised for the wholesale distribution of liquefied petroleum gases: ten business entities. In 2016 one new member joined CORES and no existing members left.

- In their capacity as natural gas retailers: 154 business entities. In 2016, 30 new members joined CORES and 13 existing members left.

6.2. Main regulations relating to CORES issued in 2016

The main regulations issued in 2016 relating to CORES were as follows:

- Ministry of Energy, Tourism and the Digital Agenda Order ETU/1989/2016, of 28 December, approving the fees of Corporación de Reservas Estratégicas de Productos Petrolíferos for 2017 (Spanish Official State Gazette no. 316, of 31 December 2016).

- Ministry of Energy, Tourism and the Digital Agenda Order ETU/1792/2016, of 8 November, providing for the removal of a Member of the Board of Directors of Corporación de Reservas Estratégicas de Productos Petrolíferos and the appointment of a replacement (Spanish Official State Gazette no. 279, of 18 November 2016).

- Ministry of Industry, Energy and Tourism Order IET/1555/2016, of 29 September, amending the fees of Corporación de Reservas Estratégicas de Productos Petrolíferos for 2016 approved by Ministry of Industry, Energy and Tourism Order IET/2839/2015, of 23 December (Spanish Official State Gazette no. 238, of 1 October 2016).

- Directorate General of Energy and Mining Policy Resolution of 8 March 2016, approving the standard agreement for the increase of strategic stocks constituted on behalf of obligated entities (Spanish Official State Gazette no. 64, of 15 March 2016).

6.3. Main activities of the Corporation in 2016

CORES is Spain's Central Stockholding Entity (CSE), as defined in Directive 2009/119/EC. CORES contributes to guaranteeing the security of oil and gas supply by maintaining petroleum product reserves and controlling the industry-held stocks of petroleum products, liquefied petroleum gases (LPGs) and natural gas. Since its creation in 1995, CORES has also acted as a source of information on the oil and gas industry.

In addition, CORES helps ensure an adequate diversification of natural gas supplies in Spain by controlling the origin of the supplies and calculating the country's current diversification percentage.

a. Constitution, storage and management of strategic reserves

In Spain the obligation to maintain minimum security stocks of petroleum products currently stands at 92 days of eligible sales or consumption, and these stocks must be maintained at all times. The total obligation is shared between CORES (42 days of strategic reserves) and the industry (which holds the remaining 50-day obligation).

At 31 December 2016, the composition and volume of the reserves held by CORES were as follows:

- Gasolines: 639,693 m^3
- Kerosenes and gas oils: 4,433,109 m^3
- Fuel oils: 203,748 t
- Crude oil: 2,269,998 m^3

There was a net decrease of 542,758 m^3 in strategic reserves with respect to 2015 (comprising a fall of 32,625 m^3 in gasolines, an increase of 14,326 m^3 in medium distillates and a decline of 524,459 m^3 in crude oil).

In the case of gasolines, the net decrease was the result of the reduction in volume due to the decision taken by the Board of Directors not to replace any product losses (-733 m^3), the sale of certain volumes of gasoline (-39,730 m^3) and the increase in volume due to the exchange of crude oil for gasoline (+7,838 m^3). In the case of medium distillates, the net increase was due to a rise in volume as a result of the exchange of crude oil for medium distillates (+18,616 m^3) and a fall relating to the non-replacement of product losses (-4,290 m^3).

In the case of crude oil, the net decrease was the result of the non-replacement of losses (-3,410 m^3), in addition to two sale transactions (-477,809 m^3) and an exchange of crude oil for other products (-43,240 m^3).

At 31 December 2016, the Corporation held 49.7 days of reserves, down 5.4 days on 2015, due mainly to the sales of petroleum products and crude oil in the year. Consequently, CORES held stock levels in excess of its obligation throughout the year and, therefore, it was not necessary to acquire any products.

With regard to CORES' operations, as mentioned above, in 2016 two tenders for the sale of gasoline, two tenders for the sale of crude oil and one exchange of crude oil for petroleum products were carried out. Also, two tenders for relocation and storage were conducted, although in this case the total volume of reserves was not affected.

In the course of 2016, CORES performed 29 inspections of both the quantity and quality of the strategic reserves stored, covering approximately 69% of the total.

b. Monitoring of compliance with the obligation to maintain minimum security stocks

In 2016 the Corporation continued to monitor industry compliance with the obligation to maintain minimum security stocks of liquid hydrocarbons, LPG and natural gas.

As provided for in current legislation, an Inspection Plan for 2016 was prepared. For this purpose, the Corporation selected certain obligated entities and conducted the corresponding inspections. Also, the relevant penalty proceedings were initiated in cases where non-compliance on the part of the obligated entity was detected. The detail by industry of the inspections carried out in 2016 is as follows:

- Liquid hydrocarbons: 55 inspections were performed covering 45% of the stockholding obligation.
- Natural gas: a comprehensive inspection was conducted of all 134 registered obligated entities.
- LPG: two systematic inspections were performed.

It is important to note that the adverse reports issued by the Corporation affect a limited number of obligated entities and in any case relate to a quantitatively insignificant volume of stocks. In no case was compliance with Spain's obligation to maintain minimum security stocks compromised.

Lastly, CORES is currently preparing the Annual Inspection Report[1] which, as required by Article 7 of Ministry of Industry, Trade and Tourism Order ITC/3283/2005, of 11 October, it must submit to the Directorate General of Energy and Mining Policy and to the Spanish National Markets and Competition Commission before 1 May 2017.

c. Monitoring of compliance with the obligation to diversify natural gas supplies

Within the framework of its functions, CORES monitors compliance with the obligation to diversify natural gas supplies, using two forms of supervision.

Firstly, in 2016, as part of the analysis conducted systematically each year, CORES calculated the diversification percentage of the supplies to Spain in 2015. Its calculation was based on information furnished by natural gas retailers and, pursuant to current regulations, excluded the volume of gas acquired for facilities with guaranteed alternative supplies of other fuels, as well as supplies not intended for domestic consumption.

[1] *CORES' Annual Report on compliance with the obligations to maintain minimum security stocks of petroleum products and natural gas and to diversify natural gas supplies.*

The result of the calculation was that the main country supplying the Spanish market was Algeria, which accounted for 53.9% of total supplies subject to diversification, an increase of 2.5 percentage points with respect to 2015. This percentage is once again above the current limit, set at 50%, and, therefore, might give rise to certain legally established obligations for shippers whose share of the total annual supply exceeds 7%. The result is published on CORES' website, in the section entitled "Control of diversification".

Secondly, at the end of 2016 CORES requested diversification-related data from gas retailers. The information obtained will be processed and analysed in the first quarter of 2017.

d. CORES as an authoritative source of information in the industry

As part of their legal obligation to maintain minimum security stocks, industry players must submit to CORES, on a monthly basis, a detail of their activity; the information received is verified and checked each month by the Corporation in order to guarantee the security of supply.

Consequently, and as a result of its comprehensive vision of all industry players operating in Spain, CORES is the authoritative official source of information for the oil and gas industry, and as such is jointly responsible for several items in the Spanish National Statistics Plan. Furthermore, CORES cooperates with the Spanish Government in reporting industry statistics to international organisations, such as the International Energy Agency and Eurostat. This activity, which sets CORES apart from other CSEs, was further strengthened in 2016 with a view to improving the dissemination of oil and gas information in Spain.

The information is published in Spanish and English on CORES' website, www.cores.es, when it is only a month and a half old, and consists basically of data on the consumption, foreign trade, balance, production and stocks of petroleum products and natural gas in Spain, in most cases including historical series from 1996 to date. To be precise, a total of 26 historical and annual files are published, of which 16 relate to petroleum products and 10 to natural gas.

In addition, CORES has maintained its existing publications, through the issue of the monthly Oil and Gas Statistical Bulletin and the 2015 Annual Statistical Report, the latter in bilingual format, and the publication of 35 i_Cores data sheets, including most notably the monthly updates on consumption, crude oil imports, and natural gas imports and exports.

Visitors to CORES' website can subscribe free of charge to its online statistics and publications, and the Corporation also publicises its activities on the main social networks, with profiles on Twitter, LinkedIn and Facebook, thus contributing to the divulgation of the Spanish security of supply model.

e. Research and development activities

CORES did not perform any research and development activities in 2016.

f. Funding of the Corporation's activities

Due to its status as a public law entity, the Corporation does not have any capital and, therefore, it has to finance its activities with third-party funds.

The Corporation's funding mechanisms are, pursuant to Article 52 of Law 34/1998, Articles 24 et seq. of Royal Decree 1716/2004, and Article 13 of its bylaws, which were approved by Schedule to the aforementioned Royal Decree, (i) the fees it charges entities obliged to maintain minimum security stocks of petroleum products and natural gas; and (ii) the financial markets.

In accordance with Royal Decree 1716/2004, the entities obliged to maintain minimum security stocks of petroleum products, including liquefied petroleum gases, and of natural gas, and those obliged to diversify natural gas supplies, must contribute to the funding of the Corporation by paying a monthly fee per unit of product sold, based on their sales or consumption.

The aforementioned fee is set on the basis of the income and expenses budget, which includes the estimate of the financial resources that the Corporation will require in order to achieve its objectives. This income and expenses budget, together with the fee proposal to be submitted to the Ministry, is approved by the Board of Directors. In this connection, the Ministry of Industry, Energy and Tourism published the fees for 2016 through Ministerial Order IET/2839/2015, of 23 December.

In 2016, in addition to the changes in some of the assumptions used in preparing the budget, certain transactions were performed that affect the volume of stocks held by CORES and which were not initially envisaged, since they arose as a result of lines of action approved by the Board of Directors in the first half of the year as part of the Strategic Plan and the Sales Plan.

With regard to the benchmark interest rate assumption approved in the budget, the fall of Euribor to lower-than-expected levels gave rise to a reduction in interest costs. Also, the downward variance in revenue was due the reduction in the number of requests for CORES to maintain additional days of stocks, although the performance of sales was in line with the budget.

As a result of all the foregoing, in the first three quarters of the year there was an excess of revenue over the cost of the Corporation's activities.

Consequently, CORES proposed a reduction of the fees applicable to sales or consumption as from September 2016, except for the fees relating to liquefied petroleum gases and natural gas, which remained unchanged. Thus, the Ministry of Industry, Energy and Tourism approved Order IET/1555/2016, of 29 September, modifying CORES's fees for 2016.

As in previous years, the default rate (0.46%) was not significant as a result of the mandatory nature of the fee payments pursuant to Oil and Gas Industry Law 34/1998, of 7 October.

Lastly, with respect to CORES' payment obligations to its suppliers and creditors, its average period of payment was 30 days in 2016.

CORES' asset financing requirements are met using borrowings obtained from the financial markets, its two major sources of funds being bilateral bank loans and bond issues.

In 2016, as a result of the sales of reserves, CORES made repayments on its debt as established in the applicable legislation. CORES reduced its debt by a total of EUR 80 million, which were used to repay in full EUR 30 million of debt maturing in 2016 and to repay early a portion, EUR 50 million, of the loan maturing in 2022.

CORES continued to implement a risk policy geared towards maintaining a debt maturity curve that lowers its annual payment commitments and towards diversifying the sources of borrowings in order to obtain a volume of funds through bonds issued in the financial markets that is similar to that of its bank loans.

CORES maintained its credit rating of BBB+ awarded by the Fitch and Standard & Poor´s rating agencies.

6.4. Events after the reporting period and future outlook for the Corporation

The I Strategic Plan of CORES, approved in April 2016 and revised in December that year, sets out the lines of action for the Corporation in 2017. In this context, in the first quarter of 2017 progress was made in implementing the plan for the sale of surplus stocks based on the criteria established in the Strategic Plan. Accordingly, in January the Board of Directors earmarked for disposal a further 30,595 m^3 of gasoline reserves. This is the latest disposal performed to date.

Following this transaction, and taking into account the change-of-year review of the stockholding obligation and the capacity reserve to cater for the estimated trend in consumption, the surplus at the date of this report stood at 440,000 $m^{3,}$ equal to 50% of that existing at the beginning of 2016.

The Corporation's determined effort to improve inspection processes in order to contribute, using the powers attributed to CORES, to the fight against fraud, led to the birth of a dedicated plan for this area. In the first quarter of 2017 this plan resulted in the launch of the modernisation of inspection processes and various organisational changes that will come into effect in the course of 2017.

Lastly, as regards the future outlook for the Corporation, the lines of action set in CORES' I Strategic Plan represent the benchmark for its operations in 2017 and subsequent years. The eleven lines of the Plan encompass all relevant areas and implementation of some of them will span a period of more than one year. In this regard, Royal Decree 984/2015 imposes upon CORES the obligation to prepare a Plan each year, as a result of which it is required to reflect on its future on a yearly basis. CORES will conduct this reflection in the course of the second and third quarters of 2017.

6.5. Risks and uncertainties

On 26 May 2016, the Board of Directors of the Corporation approved CORES' risk map and risk management policy. Work is currently in progress on the preparation of the Risk Management Manual, as well as on the Code of Conduct for the members of CORES' Board of Directors (applicable to those members and to any persons regularly attending the Board meetings) and on CORES' Code of Conduct (applicable to the entire organisation, in addition to the aforementioned directors).

The aim of the Corporation's risk management policy is to establish the basic principles and the general operating framework for managing the risks to which CORES is exposed, and to guide and direct a set of strategic actions, of both an organisational and operational nature, to enable the Board of Directors to consolidate the achievement of the Corporation's objectives, within a framework of rigour and excellence geared towards ensuring security and service in the performance of its activities.

None of the risks analysed, or any other risks that may negatively impact the achievement of CORES' business targets or the performance of its statutory functions, arose in 2016 or, in general, have arisen since the date of its creation.

The Corporation does not expect to make any changes to its risk management policy.

7. Signature of members of the Board of Directors

Chairman:

Pedro Miras Salamanca

José Francisco Vázquez González

For:

REPSOL PETRÓLEO, S.A.,

Deputy chairman/director

Director:

Sergio López Pérez

Director:

Carmen Martínez de Azagra Garde

Director:

Eva Alonso Casado

Director:

Iría Álvarez Besteiro

Olvido Moraleda Linares

For:

BP OIL ESPAÑA, S.A., Director

Carlos Navarro

For:

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A., Director

Aitor Egurrola Marzo

For:

ESERGUI, S.A., Director

Nuno Moreira Da Cruz

For:

GALP ENERGÍA ESPAÑA, S.A., Director

Jaime Fernández-Cuesta Luca de Tena

For:

REPSOL BUTANO, S.A., Director

Joaquín Mendiluce Villanueva

For:

GAS NATURAL COMERCIALIZADORA, S.A., Director

Madrid, 31 March 2017

8. Certification by the Secretary of the Board of Directors

I, JUAN SERRADA HIERRO, Secretary of the Board of Directors of CORPORACION DE RESERVAS ESTRATEGICAS DE PRODUCTOS PETROLIFEROS - CORES, with registered office at calle Paseo de la Castellana, 79-7ª Planta - 28046 MADRID, and employer identification number Q-2870025 J,

D O H E R E B Y C E R T I F Y

That the preceding financial statements and directors' report of the Corporation for 2016 consist of 58 pages, all of which bear the paraph of the Secretary, and the signatures of the members of the Board of Directors appear on the last two pages.

And in witness whereof, and for all the appropriate purposes, I hereby issue this certification in Madrid, on 31 March 2017.

The Secretary

Signed: Juan Serrada Hierro

Approved by

The Chairman

Signed: Pedro Miras Salamanca

cores

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de Reservas Estratégicas
de Productos Petrolíferos

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Corporación de Reservas Estratégicas de Productos Petrolíferos

Financial Statements and Directors' Report for 2016, together with Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the entity in Spain (see Note 5.2-a). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the entity in Spain (see Note 5.2-a). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the General Assembly of
Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES):

Report on the Financial Statements

We have audited the accompanying financial statements of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Members of the Board of Directors' Responsibility for the Financial Statements

The members of the Board of Directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) in accordance with the regulatory financial reporting framework applicable to the entity in Spain (identified in Note 5.2-a to the accompanying financial statements) and for such internal control as the members of the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the entity and, in particular, with the accounting principles and rules contained therein.

Other matters

The financial statements of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) for the year ended 31 December 2015 were audited by other auditor that expressed an unqualified opinion over those financial statements on 20 April 2016.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the members of the Board of Directors consider appropriate about the entity's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the entity's accounting records.

DELOITTE, S.L.

Registered in ROAC under no. S0692

Jorge Izquierdo Mazón
5 April 2017