

Letter from the Chairman and CEO

Dear shareholders,

It is with great pleasure that I inform you on our company's main milestones and results in 2008. As you all know, the year was marked by a sharp downturn in the world economy in the second half of the year, a downturn which became an economic crisis as the year 2009 progressed.

In 2008 the Repsol Group obtained consolidated net profit of €2.711 billion, while recurring operating income, excluding the effect of inventories of raw materials, increased by 5% to €5.503 billion.

The company achieved these results within an international context of high crude oil prices and a strong euro against the dollar in the first half of the year, a situation which changed dramatically in the second half of the year with the barrel price even falling below \$40, when in July it had stood at over \$140.

For yet another year, we have decided to continue with our policy of increasing shareholder remuneration and I am pleased to announce that we have proposed to the Annual Shareholders Meeting payment of a total gross dividend of 1.05 euros per share for the year 2008, an increase of 5% on the previous year.

In 2009 we face an extensive, profound world financial crisis, and this has led our company to establish new goals of greater constraint and responsibility. Within this framework our priorities are to maintain financial discipline and compliance with the 2008–2012 Strategic Plan.

In the light of the international economic recession, and given the present context of hydrocarbon prices, we have decided to take our policy of austerity further, and have established an extraordinary savings plan of over €1.5 billion for 2009.

This plan includes measures such as freezing remuneration of the Board of Directors and management team – an example of the Repsol governing and management bodies' commitment to the policy of austerity established by the Group –, renegotiating contracts in line with the new price scenario, cutting back non-essential expenses and delaying deferrable investments, to enable us to devote ourselves fully to key projects and thereby guarantee the company's profitable growth.

Investments carried out by Repsol in 2008 amounted to €5.586 billion, an increase of 4% over the previous year, a figure in line with the annual investment



objectives established in the Strategic Plan. We plan to maintain this investment effort in 2009 in order to continue laying the foundations for future growth.

Despite the negative worldwide macroeconomic scenario, Repsol has a sound financial position: it closed the year with liquidity of over €6.8 billion and reduced debt by 4.5%, reaching a debt/capital employed ratio of 11.9%. The company's net debt has been reduced by 24% since 2006.

In recent years, Repsol has undertaken a committed policy to seeking hydrocarbon reserves through a tremendous exploration effort which has begun to see significant results. In 2008 our company participated in three of the five largest discoveries made worldwide: in Guara, in the Brazilian Santos basin, Kinteroni, in Peru, and Huacaya, in Bolivia.

One of the strategic initiatives with the greatest potential is the exploration activity in deep waters of the Santos basin, where we have high quality oil deposits, in what can be considered one of the most important offshore

“In 2008 Repsol attained an exceptional position in the international ranking of discoveries, participating in three of the five largest discoveries worldwide”

oil basins on the American continent discovered the last thirty years.

In Libya, another of the regions which offers an excellent outlook for our group, the I/R field commenced production in the second quarter of 2008. One of the largest oil discoveries in our company's history, this field is already in the production phase. In 2008 our contracts in the NC-115 and NC-186 blocks in the same country were also extended to the year 2032.

Towards the end of the year, in November, Repsol was awarded the hydrocarbon exploration rights for three blocks in the offshore area of Newfoundland (Terranova) and Labrador, in Canada. This represented a further step forward in the company's plans to increase gas and oil exploration and production in member countries of the Organization for Economic Co-operation and Development (OECD).

In addition to these achievements, in the first months of 2009 four new gas discoveries were announced in the Algerian Sahara desert as well as a significant oil find in US waters of the Gulf of Mexico: the deepwater Buckskin well, located 300 kilometres off the coast of Houston. This region, in which Repsol participates in the significant Shenzi area project, is considered one of the world's most profitable with the greatest deepwater exploration potential. In 2009 Repsol also discovered gas 400 kilometres off the coast of Morocco and made exploration finds with the Iguazu well in Brazil and on the Libyan coast.

In addition to these exploration and production activities, Repsol has consolidated its position as a world reference

in refining, a segment in which the company has notable competitive advantages, such as its conversion capacity, which is higher than the EU average, its strong margins and the excellent location of its industrial complexes.

To implement our company's growth vectors, significant investments are forecast, which will be financed entirely from funds generated by our business. These large projects include the Cartagena refinery which, at €3.262 billion, can without doubt be considered the largest industrial investment ever made in Spain.

Parallel to these investments, in 2008 Repsol also carried out a divestment plant of non-strategic assets. This includes the sale of its service station networks in Ecuador and Brazil, as well as its stake in the Manguinhos refinery.

Within the framework of enhancement of the geographical distribution of the company's assets and application of global management with a local focus, in February 2008 Repsol completed the sale of 14.9% of YPF to the Petersen Group for the sum of 2.235 billion dollars. Within a maximum period of four years from this date, the Petersen Group may also purchase an additional percentage of 10.1% of the YPF equity, and has already exercised an option for 0.1%.

Since taking over as Chairman of Repsol just over four years ago, I have defended a management policy based on stringency and transparency. I am pleased to inform you that this policy has not been long in bearing fruit: for the third consecutive year Repsol has been rated the most transparent of the world's large oil companies by the prestigious international Dow Jones indexes.

“Financial discipline and prudent investment are the guiding forces behind our usual performance, but today, more than ever, they must lead the way”

The group also received the top rating in client relations, climate change strategy and biodiversity and significantly improved its rating in exploration and production. It should be highlighted that in 2005 we undertook a voluntary commitment to reduce CO₂ emissions by a million tonnes by 2012. The efficiency actions applied in recent years enabled us to achieve this goal in 2008 and the company has therefore revised its objectives and established a new, more ambitious plan: to reduce emissions by 2.5 million tonnes of CO₂ equivalent during the period 2005–2013.

This new advance confirms the correct approach of our policy on corporate responsibility, which forms an intrinsic part of our business model and the way we relate to society. As an example of this commitment, in 2008 Repsol devoted a total of €30 million to social and cultural programmes, and €83 million to research and development.

In February 2009, Repsol’s Board of Directors approved the proposal for a new organizational structure aimed at reducing and concentrating the company’s management team. The new organization, which reduces the number of business units by three, represents a rationalisation and simplification of Repsol’s senior management structure and reinforces multidisciplinary business profiles with global vision and an ability to adapt to changing environments such as today’s.

As I mentioned at the beginning of this letter, before us lies a future full of uncertainties and challenges, but also great opportunities, which we are facing with tremendous optimism and effort. I am firmly convinced

that together the Repsol human team has established sound foundations which we will make the very most of. Budgetary stringency, opportunity-seeking, financial discipline and prudent investment are the guiding forces behind our usual performance, but today, more than ever, they must continue to guide our approach.

I would like to end this letter by expressing my sincere thanks for your support and contribution to our business project, an exciting challenge to which we devote all our energies.



Antonio Brufau Niubó
Chairman and CEO