

REPSOL Group

2017 Alternative
Performance
Measures
reconciliations
4th Quarter
and 12 Months
2017

*Translation of a report
originally issued in Spanish.
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ALTERNATIVE PERFORMANCE MEASURES

Repsol's financial information contains indicators and measures prepared in accordance with applicable financial information regulations, as well as other measures prepared in accordance with the Group's Reporting Model defined as Alternative Performance Measures (APMs). APMs are measures which are "adjusted" compared to those presented as IFRS-EU or with Supplementary Information on Oil and Gas Exploration and Production Activities, and the reader should therefore consider them in addition to, but not instead of, the latter.

APM are highly useful for users of financial information as they are the measures employed by Repsol's Management to evaluate its financial performance, cash flows, or its financial position when making operational or strategic decisions for the Group.

1. Financial performance measures

Adjusted net income

<i>Million euros</i>	Fourth Quarter											
	Adjusted Result		ADJUSTMENTS									
			Joint Arrangements Reclassifications		Special Items		Inventory Effect ⁽²⁾		Total Adjustments		EU-IFRS profit/loss	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
Operating income	807 ⁽¹⁾	564 ⁽¹⁾	(257)	214	120	(478)	209	193	72	(71)	879	493
Financial result	(17)	70	76	(63)	(103)	47	-	-	(27)	(16)	(44)	54
Income from equity affiliates – net of taxes	128	77	376	(135)	(1)	-	-	-	375	(135)	503	(58)
Profit before tax	918	711	195	16	16	(431)	209	193	420	(222)	1,338	489
Income tax	(208)	(3)	(195)	(16)	(336)	(90)	(52)	(50)	(583)	(156)	(791)	(159)
Net income from continuing operations	710	708	-	-	(320)	(521)	157	143	(163)	(378)	547	330
Income attributable to minority interests	(7)	(10)	-	-	1	3	(3)	(6)	(2)	(3)	(9)	(13)
Net income from continuing activities attributable to the parent	703	698	-	-	(319)	(518)	154	137	(165)	(381)	538	317
Profit from discontinued operations	-	-	-	-	-	299	-	-	-	299	-	299
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY	703	698	-	(319)	(219)	154	137	(165)	(82)	538	616	

⁽¹⁾ Result from continuing operations at current cost of supply (CCS).

⁽²⁾ The inventory effect represents an adjustment to "Consumption of raw materials and other consumables" and "Changes in inventory of finished goods and work in progress" of the income statement under IFRS-EU.

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	At December 31											
	ADJUSTMENTS											
	Adjusted Result		Joint arrangements Reclassifications		Special Items		Inventory Effect ⁽²⁾		Total Adjustments		EU-IFRS profit/loss	
<i>Million euros</i>	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating income	3,214 ⁽¹⁾	2,067 ⁽¹⁾	(610)	98	42	(448)	143	194	(425)	(156)	2,789	1,911
Financial result	(356)	(315)	126	(68)	(82)	149	-	-	44	81	(312)	(234)
Income from equity affiliates – net of taxes	323	371	580	(177)	1	-	-	-	581	(177)	904	194
Net income before tax	3,181	2,123	96	(147)	(39)	(299)	143	194	200	(252)	3,381	1,871
Income tax	(738)	(164)	(96)	147	(350)	(323)	(36)	(51)	(482)	(227)	(1,220)	(391)
Net income from continuing operations	2,443	1,959	-	-	(389)	(622)	107	143	(282)	(479)	2,161	1,480
Income attributed to minority interests	(38)	(37)	-	-	1	4	(3)	(10)	(2)	(6)	(40)	(43)
Net income from continuing activities attributable to the parent	2,405	1,922	-	-	(388)	(618)	104	133	(284)	(485)	2,121	1,437
Profit from discontinued operations	-	-	-	-	-	299	-	-	-	299	-	299
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY	2,405	1,922	-	-	(388)	(319)	104	133	(284)	(186)	2,121	1,736

⁽¹⁾ Result from continuing operations at current cost of supply (CCS).

⁽²⁾ The inventory effect represents an adjustment to “Consumption of raw materials and other consumables” and “Changes in inventory of finished goods and work in progress” of the income statement under IFRS-EU.

Special Items

	Fourth Quarter		At December 31	
	2017	2016	2017	2016
<i>Million euros</i>				
Divestments	(72)	104	(51)	737
Workforce restructuring charges	(12)	(22)	(64)	(393)
Impairment	(612)	(400)	(635)	(434)
Provisions and other	377	99	362	(229)
TOTAL	(319)	(219)	(388)	(319)

EBITDA:

	Fourth Quarter							
	Group Reporting Model		Joint arrangements reclassifications and others		Inventory effect		EU-IFRS ⁽¹⁾	
	2017	2016	2017	2016	2017	2016	2017	2016
Upstream	1,086	637	(483)	(241)	-	-	603	396
Downstream	964	1,094	(3)	(4)	-	-	961	1,090
Corporation and other	(42)	(63)	(11)	(8)	-	-	(53)	(71)
EBITDA	2,008	1,668	(497)	(253)	-	-	1,511	1,415
EBITDA CCS	1,799	1,475	(497)	(253)	209	193	1,511	1,415

⁽¹⁾ Corresponds to “Profit before tax” and “Result adjustments” on the consolidated Cash Flow Statement prepared under EU-IFRS.

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	At December 31							
	Group Reporting Model		Joint ventures Reclassifications and others		Inventory effect		EU-IFRS ⁽¹⁾	
	2017	2016	2017	2016	2017	2016	2017	2016
Upstream	3,507	2,072	(1,459)	(796)	-	-	2,048	1,276
Downstream	3,386	3,367	(12)	(12)	-	-	3,374	3,355
Corporation and others	(170)	(213)	1	-	-	-	(169)	(213)
EBITDA	6,723	5,226	(1,470)	(808)	-	-	5,253	4,418
EBITDA CCS	6,580	5,032	(1,470)	(808)	143	194	5,253	4,418

⁽¹⁾ Corresponds to "Profit before tax" and "Result adjustments" on the consolidated Cash Flow Statement prepared under EU-IFRS.

ROACE:

NUMERATOR	2017	2016
Operating profit EU-IFRS	2,789	1,911
Joint Arrangements reclassification	610	(98)
Special items	(42)	448
Income tax ⁽¹⁾	(873)	(340)
Share of profit (loss) of entities accounted for using the equity method - net of taxes	323	371
I, ROACE result at average weighted cost	2,807	2,292
DENOMINATOR	2017	2016
Total equity	30,063	31,111
Net financial debt	6,267	8,144
Capital employed at year end	36,330	39,255
II, Average capital employed ⁽²⁾	37,793	39,818
CCS ROACE (I/II)	7,4%	5,8%

⁽¹⁾ Does not include income tax corresponding to financial results.

⁽²⁾ Corresponds to the average balance of capital employed at the beginning and end of the year.

2. Cash flow measures

Free Cash Flow, Cash Generated

	Fourth Quarter					
	Adjusted cash flow		Joint arrangements reclassifications and others		EU-IFRS cash flow statement	
	2017	2016	2017	2016	2017	2016
I, Cash flows from / (used in) operating activities	1,929	1,402	(84)	246	1,845	1,648
II, Cash flows from / (used in) investing activities	(1,045)	29	157	(482)	(888)	(453)
Free cash flow (I+II)	884	1,431	73	(236)	957	1,195
Cash generated	683	1,314	298	206	981	1,520
III, Cash flows from / (used in) financing activities and others ⁽¹⁾	(894)	(85)	(50)	190	(944)	105
Net increase / (decrease) in cash and cash equivalents (I+II+III)	(10)	1,346	23	(46)	13	1,300
Cash and cash equivalents at the beginning of the period	4,830	3,572	(242)	(185)	4,588	3,387
Cash and cash equivalents at the end of the period	4,820	4,918	(219)	(231)	4,601	4,687

	At December 31					
	Adjusted cash flow		Joint arrangements reclassifications and others		EU-IFRS cash flow statement	
	2017	2016	2017	2016	2017	2016
I, Cash flows from / (used in) operating activities	5,506	3,832	(393)	58	5,113	3,890
II, Cash flows from / (used in) investing activities	(2,946)	491	157	(100)	(2,789)	391
Free cash flow (I+II)	2,560	4,323	(236)	(42)	2,324	4,281
Cash generated	1,391	3,211	(229)	(33)	1,162	3,178
III, Cash flows from / (used in) financing activities and others ⁽¹⁾	(2,658)	(2,174)	248	132	(2,410)	(2,042)
Net increase / (decrease) in cash and cash equivalents (I+II+III)	(98)	2,149	12	90	(86)	2,239
Cash and cash equivalents at the beginning of the period	4,918	2,769	(231)	(321)	4,687	2,448
Cash and cash equivalents at the end of the period	4,820	4,918	(219)	(231)	4,601	4,687

⁽¹⁾ Includes payments for dividends and payments on other equity instruments, interest payments, other proceeds from/ (payments for) financing activities, proceeds from / (payments for) equity instruments , proceeds from / (payments for) financial liabilities and the exchange rate fluctuations effect.

Liquidity

At December 31

	Group Reporting Model		Joint arrangements reclassification and others		EU-IFRS	
	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	4,820	4,918	(219)	(231)	4,601	4,687
Undrawn credit lines	2,503	4,429	-	-	2,503	4,429
Cash deposits of immediate availability ⁽¹⁾	231	-	-	-	231	-
Liquidity	7,554	9,347	(219)	(231)	7,335	9,116

⁽¹⁾ New component. In a market situation with high levels of liquidity and negative remuneration rates, Repsol has contracted in this quarter time deposits but with immediate availability that have been recorded under the heading "Other current financial assets" in Consolidated Financial Accounts (see Note 7) and that do not meet the criteria to be classified as cash and cash equivalents.

Net Operating Investments:

Fourth Quarter

	Group Reporting Model		Joint arrangements reclassification and others		EU-IFRS ⁽¹⁾	
	2017	2016	2017	2016	2017	2016
Upstream	677	164	(32)	(77)	645	87
Downstream	349	(42)	(1)	(163)	348	(205)
Corporation and others	11	(15)	3	(5)	14	(20)
TOTAL	1,037	107⁽²⁾	(30)	(245)	1,007	(138)

At December 31

	Group Reporting Model		Joint arrangements reclassification and others		EU-IFRS ⁽¹⁾	
	2017	2016	2017	2016	2017	2016
Upstream	2,072	1,889	(324)	(565)	1,748	1,324
Downstream	757	(496)	(2)	1	755	(495)
Corporation and others	27	(1,893)	3	6	30	(1,887)
TOTAL	2,856	(500)⁽²⁾	(323)	(558)	2,533	(1,058)

⁽¹⁾ This corresponds to "Proceeds from divestments" and "Payments on investments" on the consolidated statement of cash flows prepared under IFRS-EU, and does not include items corresponding to "Other financial assets".

⁽²⁾ Gross capital expenditure amounted to 2,936 million euros in 2017 (1,093 million euros in Q4).

3. Financial position indicators

Net Debt

	Reporting Model Group		Joint arrangements reclassification ⁽¹⁾		EU-IFRS balance sheet	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
Non-current assets						
Non-current financial instruments ⁽²⁾	360	424	1,560	657	1,920	1,081
Current assets						
Other current financial assets	254	52	3	1,228	257	1,280
Cash and cash equivalents	4,820	4,918	(219)	(231)	4,601	4,687
Non-current liabilities⁽³⁾						
Non-current financial debt	(7,611)	(9,540)	(2,469)	58	(10,080)	(9,482)
Current liabilities⁽³⁾						
Current financial liabilities	(4,160)	(4,085)	(46)	(2,824)	(4,206)	(6,909)
Items not included on the balance sheet						
Net mark to market valuation of financial derivatives (excl. exchange rate) ⁽⁴⁾	70	87	-	-	70	87
NET DEBT	(6,267)	(8,144)	(1,171)	(1,112)	(7,438)	(9,256)

(1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:
December 2017: (cash and cash equivalents of €28 million and non-current financial liabilities as a result of an intra-group loan of €2,624 million, less a €275 million third-party loan).

December 2016: (Cash and cash equivalents of €43 million and current financial liabilities as a result of an intra-group loan of €2,942 million, less €344 million in third-party loans).

(2) Corresponds to the consolidated balance sheet heading, "Non-current financial assets" (but does not include available-for-sale financial assets).

(3) Does not include finance lease obligations.

(4) The net mark to market value of financial derivatives different from exchange rate derivatives has been eliminated from this section.

Gross Debt

	Net Debt		Joint arrangements reclassification and others		Figure according to EU-IFRS balance sheet	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
Current financial liabilities	(4,133)	(4,061)	(2,670)	(2,824)	(6,803)	(6,885)
Net valuation at the market rates of financial derivative, such as current exchange rate	(9)	7		-	(9)	7
Current gross debt	(4,142)	(4,054)	(2,670)	(2,824)	(6,811)	(6,878)
Non-current financial liabilities	(7,542)	(9,452)	155	57	(7,388)	(9,395)
Non-current gross debt	(7,542)	(9,452)	155	57	(7,388)	(9,395)
TOTAL GROSS DEBT	(11,684)	(13,506)	(2,515)	(2,767)	(14,199)	(16,273)

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Interest coverage

Fourth Quarter						
Million euros	Group Reporting Model		Reclassification Joint Arrangements		EU-IFRS	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
Interest	82	98	(14)	(18)	68	80
EBITDA	2,008	1,668	(497)	(253)	1,511	1,415
Interest cover	4,1%	5,9%			4,5%	5,6%

At December 31						
Million euros	Group Reporting Model		Reclassification Joint Arrangements		EU-IFRS	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
Interest	350	426	(63)	(73)	287	353
EBITDA	6,723	5,226	(1,470)	(808)	5,253	4,418
Interest cover	5,2%	8,2%			5,5%	8,0%