# Repsol, S.A. and Subsidiaries

Report on Limited Review

Interim condensed consolidated financial statements and interim management's report for the six-month period ended 30 June 2012

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

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# REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Repsol, S.A.:

1. We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Repsol, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated balance sheet at 30 June 2012 and the related condensed consolidated income statement, condensed consolidated statement of recognized income and expenses, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

2. Our review was performed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying certain analytical and other review procedures. A limited review is substantially less in scope than an audit and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

3. As a result of our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing came to our attention that might cause us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2012 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

4. Without affecting our conclusion, we draw attention to the changes in the composition of the Group described in Note 3-a) to the accompanying interim financial statements, which indicates that the carrying amount at which the Group has recognised its 51% ownership interest in YPF, S.A. was calculated on the basis of the best estimates of the Company's directors, taking into account the uncertainties concerning the outcome of the various lawsuits in progress or that might be initiated in the future. Also, as indicated in Note 2 to the accompanying interim financial statements, as a result of the aforementioned changes in the composition of the Group and pursuant to current accounting legislation, the comparative figures in the condensed consolidated income statement and condensed consolidated statement of cash flows for the six-month period ended 30 June 2011 differ from those contained in the Group's interim condensed consolidated financial statements at that date.

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.

5. Also, we draw attention to Note 2 to the accompanying interim condensed consolidated financial statements, which indicates that the aforementioned interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2011.

6. The accompanying interim consolidated management's report for the six-month period ended 30 June 2012 contains the explanations which the Parent's directors consider appropriate about the significant events which took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated management's report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2012. Our work was confined to checking the interim consolidated management's report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated companies.

7. This report was prepared at the request of the Parent's directors in relation to the publication of the half-yearly financial report required by Article 35 of Securities Market Law 24/1988, of 28 July, implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Jorge Izquierdo Mazón

25 July 2012

**REPSOL S.A. and investees composing the**
**REPSOL GROUP**

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
AND INTERIM MANAGEMENT REPORT FOR THE SIX-MONTH
PERIOD ENDED JUNE 30, 2012

*This document is a translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.*

**Repsol, S.A. and investess composing the Repsol Group**
**Consolidated Balance Sheets at June 30, 2012 and December 31, 2011**

| | | Millions of euros | |
|---|---|---|---|
| **ASSETS** | Note | **06/30/2012** | **12/31/2011** |
| Intangible assets: | | 5,798 | 7,783 |
| a) Goodwill | | 2,684 | 4,645 |
| b) Other intangible assets | 4 | 3,114 | 3,138 |
| Property, plant and equipment | 4 | 28,070 | 36,759 |
| Investment properties | | 25 | 24 |
| Investments accounted for using the equity method | | 738 | 699 |
| Non-current assets held for sale subject to expropriation | 3 | 5,653 | - |
| Non-current financial assets | 6 | 1,269 | 2,450 |
| Deferred tax assets | | 3,109 | 2,569 |
| Other non-current assets | 6 | 251 | 344 |
| **NON-CURRENT ASSETS** | | **44,913** | **50,628** |
| Non-current assets held for sale | 4 | 464 | 258 |
| Inventories | | 5,639 | 7,278 |
| Trade and other receivables | | 7,815 | 9,222 |
| a) Trade receivables | | 5,933 | 6,555 |
| b) Other receivables | | 1,522 | 2,147 |
| c) Income tax assets | | 360 | 520 |
| Other current assets | | 120 | 220 |
| Other current financial assets | 6 | 473 | 674 |
| Cash and cash equivalents | 6 | 3,953 | 2,677 |
| **CURRENT ASSETS** | | **18,464** | **20,329** |
| **TOTAL ASSETS** | | **63,377** | **70,957** |

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Balance Sheet at June 30, 2012.

**Repsol, S.A. and investees composing the Repsol Group**
**Consolidated Balance Sheets at June 30, 2012 and December 31, 2011**

| | | Millions of euros | |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | Note | **06/30/2012** | **12/31/2011** |
| **EQUITY** | | | |
| Issued share capital | 4 | 1,256 | 1,221 |
| Share premium | | 6,428 | 6,428 |
| Reserves | | 247 | 247 |
| Treasury Shares and own equity investments | 4 | (1,338) | (2,572) |
| Retained earnings and other reserves | 4 | 18,529 | 17,186 |
| Net income attributable to the shareholders of the parent | | 1,036 | 2,193 |
| Interim dividend | | - | (635) |
| **EQUITY** | | **26,158** | **24,068** |
| Financial assets available for sale | | (41) | (4) |
| Other financial instruments | | 280 | - |
| Hedge transactions | | (205) | (181) |
| Translation differences | | 540 | (345) |
| **ADJUSTMENTS FOR CHANGES IN VALUE** | | **574** | **(530)** |
| **EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT** | | **26,732** | **23,538** |
| **MINORITY INTERESTS** | | **762** | **3,505** |
| **TOTAL EQUITY** | | **27,494** | **27,043** |
| Grants | | 72 | 118 |
| Non-current provisions | | 2,193 | 3,826 |
| Non-current financial liabilities | 6 | 15,357 | 15,345 |
| a) Bank borrowings, bonds and other securities | | 15,115 | 15,137 |
| b) Other financial liabilities | | 242 | 208 |
| Deferred tax liabilities | | 2,895 | 3,839 |
| Other non-current liabilities | | 3,698 | 3,682 |
| **NON-CURRENT LIABILITIES** | | **24,215** | **26,810** |
| Liabilities related to non-current assets held for sale | 4 | 107 | 32 |
| Current provisions | | 183 | 452 |
| Current financial liabilities: | 6 | 3,020 | 4,985 |
| a) Bank borrowings, bonds and other securities | | 2,967 | 4,902 |
| b) Other financial liabilities | | 53 | 83 |
| Trade and other accounts payables: | | 8,358 | 11,635 |
| a) Trade payables | | 3,904 | 4,757 |
| b) Other payables | | 4,131 | 6,522 |
| c) Income tax liabilities | | 323 | 356 |
| **CURRENT LIABILITIES** | | **11,668** | **17,104** |
| **TOTAL EQUITY AND LIABILITIES** | | **63,377** | **70,957** |

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Balance Sheet at June 30, 2012.

**Repsol, S.A. and investees composing the Repsol Group**
**Consolidated Income Statements for the interim periods ended June 30, 2012 and 2011**

| | Note | 06/30/2012 | 06/30/2011 (1) |
|---|---|---|---|
| | | Millions of euros | |
| Sales | 5 | 27,836 | 24,803 |
| Services rendered and other income | 5 | 869 | 547 |
| Change in inventories of finished goods and work in progress inventories | | (42) | 356 |
| Income from reversal of impairment losses and gain on disposal of non-current assets | | 14 | 95 |
| Allocation of grants on non financial assets and other grants | | 2 | 6 |
| Other operating income | | 399 | 523 |
| **OPERATING REVENUE** | 5 | **29,078** | **26,330** |
| Supplies | | (21,878) | (19,395) |
| Personnel expenses | | (971) | (909) |
| Other operating expenses | | (2,943) | (2,843) |
| Depreciation and amortization of non-current assets | | (1,287) | (1,044) |
| Impairment losses recognized and losses on disposal of non-current assets | | (33) | (30) |
| **OPERATING EXPENSES** | | **(27,112)** | **(24,221)** |
| **OPERATING INCOME** | 5 | **1,966** | **2,109** |
| Finance income | | 68 | 82 |
| Finance expense | | (510) | (432) |
| Change in the fair value of financial instruments | | 139 | (313) |
| Net exchange gains/ (losses) | | (130) | 289 |
| Impairment losses and gain/(losses) on disposals of financial instruments | | - | - |
| **FINANCIAL RESULT** | | **(433)** | **(374)** |
| Share of results of companies accounted for using the equity method - net of tax | | 66 | 33 |
| **NET INCOME BEFORE TAX** | | **1,599** | **1,768** |
| Income Tax | | (674) | (645) |
| **Net income for the period from continuing operations** | | **925** | **1,123** |
| Net income for the period from continuing operations attributable tominority interests | | (22) | (66) |
| **NET INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE PARENT** | | **903** | **1,057** |
| **Net income for the period from discontinued operations after taxes** | **3** | **242** | **371** |
| Net income for the period from discontinued operations attributable to minority interests | **3** | (109) | (84) |
| **NET INCOME FOR THE PERIOD FROM DISCONTINUED OPERATIONS ATRIBUTTABLE TO THE PARENT** | **3** | **133** | **287** |
| **TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT** | | **1,036** | **1,344** |

| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **Euros** | **Euros (2)** |
|---|---|---|---|
| Basic | 4 | 0.87 | 1.07 |
| Diluted | 4 | 0.87 | 1.07 |

(1) Includes de necessary modifications with respect to the interim condensed consolidated financial statements corresponding to the six-month period ended June 30, 2011 in conection with the expropriation process of YPF, S.A. and Repsol YPF Gas, S.A. shares in accordance with the contents of Note 2, *Comparison of information* .
(2) Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the first six months of 2011 in connection with the capital increase carried out as a part of the shareholder compensation scheme known as "Flexible Repsol Dividend" described in Note 4.

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Income Statement for the six-month period ended June 30, 2012.

**Repsol, S.A. and investees composing the Repsol Group**
**Consolidated Statements of Recognized Income and Expenses corresponding to the interim periods ended June 30, 2012 and 2011**

| | Millions of euros | |
|---|---|---|
| | **06/30/2012** | **06/30/2011** |
| **CONSOLIDATED NET INCOME FOR THE INTERIM PERIOD (from the Income Statement)** (1) | **1,167** | **1,494** |
| | | |
| **INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY:** | | |
| From measurement of financial assets available for sale | (45) | 1 |
| From other financial instruments | 280 | - |
| From cash flows hedges | (39) | (22) |
| Translation differences | 198 | (1,520) |
| From actuarial gains and losses and other adjustments | - | (1) |
| Entities accounted for using the equity method | 1 | 17 |
| Tax effect | 13 | 12 |
| **TOTAL** | **408** | **(1,513)** |
| **AMOUNT TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT:** | | |
| From measurement of financial assets available for sale | (2) | - |
| From cash flow hedges | 15 | 44 |
| Translation differences | 605 | 3 |
| Tax effect | - | (13) |
| **TOTAL** | **618** | **34** |
| **TOTAL RECOGNIZED INCOME/ (EXPENSES)** | **2,193** | **15** |
| | | |
| a) Attributable to the parent company | 2,140 | 17 |
| b) Attributable to minority interests | 53 | (2) |

(1) Corresponds to the addition of the following consolidated income statement headings: "*Net income for the period from continuing operations*" and "*Net income for the period from discontinued operations after taxes*".

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Statement of Recognized Income and Expenses corresponding to the six-month period ended June 30, 2012.

**Repsol, S.A. and investees composing the Repsol Group**
**Consolidated Statements of Changes in Equity corresponding to the interim periods ended June 30, 2012 and 2011**
Millions of euros

| | Equity attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity | | | | | | | |
| | Issued share capital | Share premium and reserves | Treasury shares and own equity investments | Net income for the year attributable to equity holders of the parent | Adjustments for changes in value | Total equity attributable to equity holders of the parent | Minority interests | Total equity |
| **Closing balance at 12/31/2010** | **1,221** | **19,343** | **-** | **4,693** | **(1,117)** | **24,140** | **1,846** | **25,986** |
| Adjustments | - | - | - | - | - | - | - | - |
| **Initial adjusted balance** | **1,221** | **19,343** | **-** | **4,693** | **(1,117)** | **24,140** | **1,846** | **25,986** |
| **Total recognized income/ (expenses)** | - | (1) | - | 1,344 | (1,326) | 17 | (2) | 15 |
| **Transactions with shareholders or owners** | | | | | | | | |
| Dividend payments | - | (641) | - | - | - | (641) | (177) | (818) |
| Transactions with treasury shares or own equity instruments (net) | - | - | - | - | - | - | - | - |
| Changes in the scope of consolidation | - | 488 | - | - | 305 | 793 | 1,476 | 2,269 |
| **Other changes in net equity** | | | | | | | | |
| Transfers between equity accounts | - | 4,729 | - | (4,693) | (36) | - | - | - |
| Other changes | - | (2) | - | - | - | (2) | 1 | (1) |
| **Closing balance at 06/30/2011** | **1,221** | **23,916** | **-** | **1,344** | **(2,174)** | **24,307** | **3,144** | **27,451** |
| **Total recognized income/ (expenses)** | - | (9) | - | 849 | 1,624 | 2,464 | 518 | 2,982 |
| **Transactions with shareholders or owners** | | | | | | - | | |
| Dividend payments | - | (635) | - | - | - | (635) | (227) | (862) |
| Transactions with treasury shares or own equity instruments (net) | - | (12) | (2,572) | - | - | (2,584) | - | (2,584) |
| Changes in the scope of consolidation | - | (10) | - | - | 7 | (3) | 61 | 58 |
| **Other changes in net equity** | | | | | | - | | |
| Transfers between equity accounts | - | (22) | - | - | 12 | (10) | 10 | - |
| Other changes | - | (2) | - | - | 1 | (1) | (1) | (2) |
| **Closing balance at 12/31/2011** | **1,221** | **23,226** | **(2,572)** | **2,193** | **(530)** | **23,538** | **3,505** | **27,043** |
| Adjustments | - | - | - | - | - | - | - | - |
| **Initial adjusted balance** | **1,221** | **23,226** | **(2,572)** | **2,193** | **(530)** | **23,538** | **3,505** | **27,043** |
| **Total recognized income/ (expenses)** | - | - | - | 1,036 | 1,104 | 2,140 | 53 | 2,193 |
| **Transactions with shareholders or owners** | | | | | | - | | - |
| Share capital increase/ (reduction) | 35 | (35) | | | | | | |
| Dividend payments | - | (242) | - | - | - | (242) | (50) | (292) |
| Transactions with treasury shares or own equity instruments (net) | - | 65 | 1,234 | - | - | 1,299 | - | 1,299 |
| Changes in the scope of consolidation | - | - | - | - | - | - | - | - |
| **Other changes in net equity** | | | | | | | | |
| Transfers between equity accounts | - | 2,193 | - | (2,193) | - | - | - | - |
| Other changes | - | (3) | - | - | - | (3) | (2,746) | (2,749) |
| **Closing balance at 06/30/2012** | **1,256** | **25,204** | **(1,338)** | **1,036** | **574** | **26,732** | **762** | **27,494** |

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Statement of Changes in Equity corresponding to the six-month period ended June 30, 2012.

**Repsol, S.A. and investees composing the Repsol Group**

Consolidated Statement of Cash Flows corresponding to the interim periods ended June 30, 2012 and 2011

| | Millions of euros | |
|---|---|---|
| | **06/30/2012** | **06/30/2011 (1)** |
| **Net income before taxes** | **1,599** | **1,768** |
| **Adjustments to the income** | **1,732** | **1,321** |
| Depreciation and amortization of non-current assets | 1,287 | 1,044 |
| Other adjustments to the result (net) | 445 | 277 |
| **Changes in working capital** | **(139)** | **(1,060)** |
| **Other cash flows from operating activities:** | **(747)** | **(557)** |
| Dividens received | 37 | 17 |
| Income tax received /(paid) | (637) | (488) |
| Other proceeds from/ (payments for) from operating activities | (147) | (86) |
| **Cash Flows from Operating Activities (2)** | **2,445** | **1,472** |
| **Payments for investments activities:** | **(1,863)** | **(1,917)** |
| Group companies, associates and business units | (57) | (90) |
| Property, plant and equipment, intangible assets and investment properties | (1,674) | (1,537) |
| Other financial assets | (132) | (290) |
| **Proceeds form divestments:** | **395** | **589** |
| Group companies, associates and business units | 43 | 72 |
| Property, plant and equipment, intangible assets and investment properties | 19 | 221 |
| Other financial assets | 333 | 296 |
| **Other cash flows** | **2** | **(6)** |
| **Cash Flows used in Investment Activities (2)** | **(1,466)** | **(1,334)** |
| **Proceeds from/ (payments for) equity instruments** | **1,313** | **-** |
| Acquisition | (56) | - |
| Disposal | 1,369 | - |
| **Disposal in ownership interest in subsidiaries without loss of control** | - | - |
| **Proceeds from/(payments for) financial liabilites** | **108** | **(1,264)** |
| Issues | 5,443 | 2,738 |
| Return and redemption | (5,335) | (4,002) |
| **Payments for dividends and payments on other equity instruments** | **(685)** | **(671)** |
| **Other cash flows from financing activities** | **(110)** | **(702)** |
| Interest payments | (413) | (419) |
| Other proceeds form/ (payments for) financing activities | 303 | (283) |
| **Cash Flows used in/ (from) Financing Activities (2)** | **626** | **(2,637)** |
| Effect of changes in exchange rates | 15 | (110) |
| **Net Increase / (Decrease) in cash and cash equivalents** | **1,620** | **(2,609)** |
| Cash Flows from Operating Activities from discontinued operations | 874 | 564 |
| Cash Flows Used in Investment Activities from discontinued operations | (872) | (738) |
| Cash Flows Used in Financing Activities from discontinued operations | (339) | 2,099 |
| Effect of changes in exchange rates from discontinued operations | (7) | (28) |
| **Net Increase / (Decrease) in cash and cash equivalents from discontinued operations** | **(344)** | **1,897** |
| Cash and cash equivalents at the beginning of the period | 2,677 | 6,448 |
| Cash and cash equivalents at the end of the period | 3,953 | 5,736 |

| **COMPONENTS OF CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD** | **06/30/2012** | **06/30/2011** |
|---|---|---|
| (+) Cash and banks | 1,271 | 3,986 |
| (+) Other financial assets | 2,682 | 1,750 |
| **TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **3,953** | **5,736** |

(1) Includes the necessary modifications with respect to the interim condensed consolidated financial statements corresponding to the six-month period ended June 30, 2011 in connection with the expropriation process of YPF, S.A and Repsol YPF Gas, S.A shares in accordance with the contents of Note 2, *Comparison Information.*

(2) Corresponds to the cash flows from continuing operations.

(3) In 2011 this includes the cash flows from the sale of YPF shares amounting to €1,831 million.

The accompanying explanatory notes 1 to 15 are an integral part of the Consolidated Statement of Cash Flows for the interim period ended June 30, 2012.

REPSOL, S.A. AND INVESTEES COMPOSING THE REPSOL GROUP

Explanatory notes to the interim condensed consolidated financial statements for the six-month period ended June 30, 2012.

## CONTENTS

## (1) GENERAL INFORMATION

Repsol, S.A. (previously Repsol YPF, S.A.) and investees composing the Repsol Group (hereinafter “Repsol”, “the Repsol Group” or “the Group”) constitute an integrated group of oil and gas companies which commenced operations in 1987.

The Repsol Group is engaged in all the activities relating to the oil and gas industry, including exploration, development and production of crude oil and natural gas, transportation of oil products, liquified petroleum gas (LPG) and natural gas, refining, the production of a wide range of oil products and the retailing of oil products, oil derivatives, petrochemicals, LPG and natural gas, as well as the generation, transportation, distribution and supply of electricity. The Group operates in more than 40 countries and its Head Office is in Spain. From 1999 until the first quarter of 2012 the Group also operated in Argentina through YPF and Repsol YPF Gas. A significant part of the Group’s investment in these companies is subject to an expropriation process by the Argentinean Government (see section a) *Expropriation of Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.* of Note 3 *Changes in the structure of the Group*).

Repsol, S.A. is registered at the Madrid Mercantile Registry in volume 3893, folio 175, sheet no. M-65289, entry 63ª. Its Employer Identification Number is A-78/374725 and its National Classification of Economic Activities Number is 742.

The corporate name of the parent of the Group of companies that prepares and files these interim condensed consolidated financial statements is Repsol, S.A. The Ordinary General Shareholders Meeting held on May 31, 2012 voted to change the name of the company from Repsol YPF, S.A to Repsol, S.A. This change was registered at the Madrid Mercantile Registry on June 12, 2012.

The Ordinary General Shareholders Meeting held on May 31, 2012 also voted to move the Head Office to Calle Méndez Alvaro, 44, Madrid. This change was registered at the Madrid Mercantile Registry on July 4, 2012. The Shareholder´s Information Offices provisionally located at Paseo de la Castellana, 278 until it moves to the new Head Office. Its phone number is: 900.100.100.

Repsol, S.A. is a private-law entity incorporated in accordance with Spanish legislation, and is subject to the Revised Text of the Spanish Corporations Law approved by Legislative Royal Decree 1/2010 dated July 2, 2010 and to the legislation governing listed corporations.

Repsol, S.A.’s shares are represented by book entries and are all admitted to trading on the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao, and Valencia) and the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires).

At June 30, 2012, the share capital of Repsol YPF comprised 1,220,863,463 shares with a par value of 1 euro each. In July, 2012 share capital was increased as a result of the capital increase approved by the Ordinary General Shareholders Meeting held on May 31, 2012 (point ten of the meeting agenda). It serves as an instrument for the shareholder remuneration sheme known as “Flexible Repsol Dividend”, included in Note 4 section *d) Equity-1. Share Capital and reserves*. In accordance with applicable accounting policies, this capital increase has been recognized in the Financial Statements at June 30, 2012.

These interim condensed consolidated financial statements for the six-month period ended June 30, 2012 were prepared by the Board of Directors of Repsol, S.A. at their meeting on July 25, 2012.

## (2) BASIS OF PRESENTATION

The interim condensed consolidated financial statements are presented in millions of euros (except for any other information in which another currency or parameter is specified), and were prepared based on the accounting records of Repsol, S.A. and its investees and they are presented i) in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union at June 30, 2012, and particularly, pursuant to the requirements established in IAS 34 *Interim Financial Reporting* which established the accounting principles in relation with interim financial statements, and ii) in conformity with Art. 12 of RD 1362/2007 and iii) the disclosures of information required in Circular 1/2008, of January 30, issued by Spanish securities market regulator (the CNMV for its acronym in Spanish).

In this regard, the interim condensed consolidated financial statements present fairly the Group's consolidated equity and the financial position at June 30, 2012, as well as the results of operations, the changes in consolidated equity and consolidated cash flows that have occurred during the six-month period ended on that date.

Pursuant to the provisions of IAS 34, interim financial information is prepared only with the intention of updating the content of the last annual consolidated financial statements prepared by the Group, emphasizing new activities, events and circumstances that occur during the half-year and not duplicating the information previously published in the consolidated financial statements for the year 2011. Therefore, for an adequate understanding of the information that is included in these interim condensed financial statements, they must be read in conjunction with the consolidated financial statements of the Repsol Group for year 2011, which were approved by the General Shareholders' Meeting of Repsol, S.A., held on May 31, 2012.

***Regulatory framework***

*Liquid Hydrocarbons, Oil and Petroleum Derivatives*

On June 19, 2012, the Spanish Supreme Court rendered a sentence on the administrative appeal filed by the Spanish Association of Liquified Petroleum Gas Operators (AOGLP by its acronym in spanish) against Ministerial Order ITC/2608/2009 dated September 28. The Sentence partially confirmed the appeal filed and declared the invalidity of Ministerial Order ITC/2608/2009 dated September 28, which amended Ministerial Order ITC/1858/2008 dated June 26 on price updating for bottled LPG.

The declaration of invalidity of Ministerial Order ITC/2608/2009 is firm and determines its expulsion from the legislative system as from the notification of the ruling. The invalidity will force the Government to modify its currently used formula for setting the maximum before-tax sales prices for bottled LPG, within a period of 60 days from July 5, 2012 date of its notification to the Government.

*Natural Gas*

Royal Decree Law 13/2012, of March 30, transposes into Spanish law Directive 2009/73/EC of the Parliament and of the Council of July 13, 2009, which requires an amendment of Law 34/1998, of October 7, of the hydrocarbon sector and introduces the concept of separation of ownership of assets, understood to be a situation in which the network owner is appointed network controller and is separated from any company with interests in production and supply.

The abovementioned Royal Decree Law also transposes Directive 2009/28/EC of the Parliament and of the Council, of April 23, 2009, on the promotion of the use of energy from renewable sources and amends and repeals Directives 2001/77/EC and 2003/30/EC.

*Electricity sector regulation in Spain*

The aforementioned Royal Decree Law 13/2012, of March 30, transposes the directives on domestic electricity and gas markets and on electronic communications, adopting measures for the correction of deviations from deficit between the costs and revenues in the electricity and gas sectors. These amendments in said Royal Decree Law refer to a reduction of the electricity sector deficit.

***Accounting policies: New standards, interpretations and amendments***

A) In relation with the accounting policies framework applicable at December 31, 2011, the IASB only issued one amendment that was endorsed by the European Union and which is mandatory applicable to the annual periods beginning on January 1, 2012: *IFRS 7 Disclosures:Transfers of financial assets (Amendments)*

   Taking into account the transactions of the Group, at the date of authorizing these interim condensed consolidated financial statements, the Group do not foresee any significant impact in its annual consolidated financial statements disclosures as a consequence of applying IFRS 7 amendments.

B) Below there is a list of the standards, interpretations and amendments issued by the IASB and endorsed by the European Union at June 30, 2012, whose mandatory first time application will be in the periods subsequent to 2012:

   <u>Mandatory application in 2013</u>

   - Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*
   - Amendments to IAS 19 *Employee Benefits*

   The Group estimates that the application of the above-listed amendments would not have a significant impact on the Group´s Consolidated Financial Statements; however, certain additional disclosures may be included.

C) Below there is a list of the standards, interpretations and amendments issued by the IASB and mandatorily applicable from January 1, 2012, but pending to be endorsed by the European Union at June 30, 2012:

   - Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
   - Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*

   The application of the above above-listed amendments is not expected to have a significant impact on the Group´s Consolidated Financial Statements.

D) Below there is a list of the standards and amendments issued by the IASB at June 30, 2012, mandatorily applicable for the first time in reporting periods after 2012 and pending to be endorsed by the European Union.

Mandatory application in 2013

- IFRS 10 *Consolidated Financial Statements(*)*
- IFRS 11 *Joint Arrangements(*)*
- IFRS 12 *Disclosure of Interests in Other Entities (*)*
- Amendments to IFRS 10, 11 and 12 *Transition Guide*
- IFRS 13 *Fair Value Measurement*
- IAS 27 revised *Separate Financial Statements* (*)
- IAS 28 revised *Investments in Associattes and Joint Ventures* (*)
- Improvements to IFRS 2009-2011
- Amendments to IFRS 1 *Government loans*
- Amendments to IFRS 7 *Offsetting Financial Assets and Financial Liabilities*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Mandatory application in 2014:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

Mandatory application in 2015:

- IFRS 9 - *Financial Instruments* (**)

(*) These standards were issued by the IASB and they are effective for the annual periods beginning on or after January 1, 2013. However, the Accounting Regulatory Committee (ARC), in its meeting on June 1, 2012, decided to postpone the adoption of these standards by the European Union, until the first annual period beginning on or after 1 January 2014 although early application will be permitted. At the date of authorizing these financial statements for issue, these standards are pending to be endorsed by the European Union and accordingly, the terms of the final Regulation.

(**) This constitutes phase one of the three-phase project for the replacement of the prevailing IAS 39: *"Financial Instruments - Recognition and Measurement.* Following the recent amendment issued by the IASB, the mandatory effective date for IFRS 9 has been deferred from January 1, 2013 to January 1, 2015.

In relation with IFRS 11 *Joint Arrangements*, , the Company is in the process of analyzing all its joint arrangements in order to determine and document their proper classification as either joint operations or joint ventures, according to IFRS 11 criteria. The recognition of operations under the new standard will not affect the Group's consolidated equity or net income. The application of this new, in the case of joint arrangements that will be classified as joint ventures, as they are currently accounted for by using the proportionate method of consolidation allowed in the prevailing IAS 31, will require the Group to reclassify the amounts currently integrated proportionately to the headings of the equity method of accounting of the balance sheet and the income statement.

In respect of the other standards and amendments detailed in the current section D), the Group is currently analyzing the impact their application may have on the Consolidated Financial Statements.

***Accounting Policies***

As described in Note 3 of the notes to the consolidated financial statements for the year 2011, in the preparation of these interim condensed consolidated financial statements, Repsol has applied the same accounting policies applied in 2011.

The accounting criteria applied for recognition of the effects related to the expropriation process of Repsol Group shares in YPF, S.A. and in Repsol YPF, Gas, S.A. are stated in these interim condensed consolidated financial statements, in the corresponding section of

Note 3 *Changes in the structure of the Group.*

***Comparison of information***

As a result of the expropriation process of YPF, S.A. and Repsol YPF Gas, S.A. shares, the income statement and the statement of cash flows for the six-month period ended June 30, 2011 have been restated for comparative purposes with information from the first six-month period of 2012, with respect to the information published in the interim condensed consolidated financial statements for the first six-month period of 2011, as described in *Comparison of information* of section a) *Expropriation of shares of the Repsol Group in YPF, S.A. and Repsol YPF Gas, S.A.* in Note 3 *Changes in the structure of the Group,* and in Note 5 *Segment Reporting.*

The profit per share at June 30, 2011 has being modify compared with that stated in the interim condensed consolidated financial statements at June 30, 2011, in accordance with the accounting standards, as the average number of outstanding shares considered in the calculation should be based on the new number of shares issued after the capital increase carried out as part of the compensation scheme to shareholders known as the "Flexible Repsol dividend" described in section *d) 1. Share Capital and Reserves* of Note 4, that has been recognized with accounting effects June 30, 2012.

***Changes in estimates***

Management estimates have been used to quantify certain assets, liabilities, income, and expenses that are recorded in the interim condensed consolidated financial statements. These estimates are made based on the best available information and they refer to:

1) The expense for income tax, which, pursuant to IAS 34, is recognized in interim periods based on the best estimate of the average weighted tax rate that the Group expects for the annual period;
2) The evaluation of possible impairment losses on certain assets (see note 4, section e);
3) The market value of certain financial instruments, among which is worth mentioning the financial instruments in the first six-month period of 2012 arising as a consequence of the expropriation process of YPF and Repsol YPF Gas (see Note 3);
4) The provision for legal and arbitration proceedings and other contingencies; and
5) Crude oil and gas reserves.

Despite the fact that the estimates described above are made based on the best available information on the date on which the facts are analyzed, possible future events might require their revision (upward or downward) at year end 2012 or in subsequent years.

During the six-month period ended June 30, 2012, not significant changes have being taken in the methodology for calculating the estimates made at year end 2011.

***Relative importance***

When determining the information to be included in these interim condensed consolidated financial statements under the different items in the financial statements or other matters, the Repsol Group, pursuant to IAS 34, has taken into account their relative importance in relation to the interim condensed consolidated financial statements for the six-month period.

### *Seasonality*

Among the activities of the Group, the LPG and natural gas businesses are the ones most affected by seasonality due to their connection to weather conditions, with more activity in the winter and less in the summer in the northern hemisphere.

## (3) CHANGES IN THE STRUCTURE OF THE GROUP

Repsol prepares its consolidated financial statements including its investments in all its subsidiaries, associates and joint ventures. Appendix I of the consolidated financial statements at December 31, 2011 details the main subsidiaries, associates and joint ventures, held directly or indirectly by Repsol, S.A., which were included in the scope of consolidation at that date.

Appendix I to these interim condensed consolidated financial statements details the changes in the scope of consolidation of the Group that have taken place during the first half of 2012.

The principal changes in the scope of consolidation that have taken place during the interim period ended at June 30, 2012 and their impact on the accompanying interim condensed consolidated financial statements are detailed below.

### *a) Expropriation of Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.*

*YPF and Repsol YPF Gas Intervention Decree and Expropriation Law*

On April 16, 2012, the National Executive Power of Argentina announced the submission to the legislative body of a draft bill on the sovereignty of the Republic of Argentina over its oil and gas resources, declaring of public interest and a priority the self-sufficiency in oil and gas and its exploitation, industrialization, transport and marketing; Section 7 of the draft bill declared of public utility and subject to expropriation 51% of YPF, S.A., represented by an equal percentage of Class D shares of YPF held, directly or indirectly, by Repsol and its subsidiaries. The stake held by the Repsol Group in YPF, S.A. on that day was 57.43%.

On that same date, April 16, 2012, the Argentinean Government enacted a Decree (“Decreto de Necesidad y Urgencia”), effective on the same day as its approval, which ordered the temporary intervention of YPF, S.A. for a 30-day period, appointing a Government minister as the Intervenor of YPF, S.A., who would be empowered with all the faculties of its Board of Directors.

Repsol communicated in a "relevant event" filed with the Spanish CNMV on April 16, 2012 its rejection of the Argentinean government's expropriation measures. On April 18, 2012, the Argentinean Government passed a resolution which extended the scope of the aforementioned Decree to Repsol YPF Gas, S.A., an Argentinean company engaging in the fractioning, bottling, transportation, distribution, and marketing of LPG in which Repsol Butano, S.A. had an 84.997% shareholding.

On April 23, 2012, YPF, S.A.'s Intervenor agreed to suspend the General Shareholder's Meeting set for April 25, 2012 which had been called to review the 2011 financial statements of YPF, S.A., as well as the proposal of capitalizing accumulated results through a paid up share capital issue totaling 5,789,200,000 Argentinean pesos, approved by the Board of Directors on March 21, 2012.

After rapid parliamentary adoption proceeding, on May 7, 2012, Law 26,741 (the "YPF Expropriation Law") was published in Argentina's Official State Gazette, becoming effective immediately, and establishing the following:

- The self-supply, exploration, export, operation, industrialization, transportation, and commercialization of hydrocarbon are declared of "national public interest".

- In order to guarantee compliance with the objectives indicated above, 51% of YPF, S.A.'s equity, represented by an equivalent percentage of Class D shares in that company, held directly or indirectly by Repsol and its controlling or controlled companies, is declared of “national public interest” and subject to expropriation, together with, 51% of the equity of Repsol YPF Gas, equivalent to 60% of the Class A shares of Repsol Butano, S.A. and its controlling or controlled companies.

- The future distribution of the shares subject to expropriation was determined: 51% to the federal government and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States, as established in the transfer conditions set out in regulatory framework stipulations. However, the National Executive Office, directly or through an appointed public entity, shall exercise all the voting rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed.
- Independently or through the designated body, the executive branch of the Argentinean government will execute all the rights conferred by the shares subject to expropriation, in the terms established in Argentinean expropriation legislation for "temporary occupation".
- The expropriation process will be governed by Law 21,499 (the National Expropriations Act), with the Argentinean government acting as the expropriating authority. The price of the assets subject to expropriation is to be determined in conformity with Article 10 of the Law and its related provisions, based on the appraisal of the National Appraisal Board.

On May 7, 2012, the President of Argentina's securities market regulator (the CNV for its acronym in Spanish) called a General Meeting of YPF, S.A. shareholders to be held on June 4, 2012.

That same day, Mr. Miguel Matías Galuccio was appointed General Manager of the YPF, S.A. during the intervention by the Executive Branch of the Argentinean Government.

During the Shareholder's Meeting held on June 4, 2012, Mr. Galuccio was appointed Chairman of the Board, and was simultaneously ratified in the above position. During the Meeting, among other actions taken, all the Members and Alternate Members of the Board of Directors and the Supervisory Committee were removed, with their substitutes named. At Repsol's proposal, of the 17 new Board Members, the Shareholder´s Meeting appointed an independent Board member.

On June 15, 2012, the suspension of the call to the Ordinary General Board Meeting of April 25, 2012, previously ordered by the Intervenor, was suspended and a new meeting called for July 17, 2012. Among others, the following agreements were reached at this meeting:

a. To approve the financial statements and the Supervisory Committee's report for 2011;

b. To not approve the management of the Members of the Board neither the Supervisory Committee for 2011, and exceptionally, approve the management of those members appointed by the Class A shares, corresponding to the Federal Government;

c. To allocate (i) 5,751 million Argentinian pesos to an investment reserve; and (ii) 303 million Argentinian pesos to a dividend payment reserve, authorizing the Board of Directors to determine when such dividends would be distributed, in a period not to exceed December 31, 2012.

Repsol considers the expropriation to be clearly illicit and gravely discriminatory (as it only affected YPF, S.A. and Repsol YPF Gas, S.A. and no other gas companies in Argentina, while also only expropriating one of the shareholders of YPF, S.A. and Repsol YPF Gas, S.A., Repsol). It also views that the national public interest is unjustified, and that the entire transaction blatantly fails to comply with Argentina's obligations in the privatization process of YPF.

Repsol also considers that the expropriation violates the most fundamental principles of legal certainty and confidence of the international investment community. Therefore, Repsol expressly and fully reserves the right to take all available corresponding actions at its disposal to preserve its rights, the value of all its shareholders' assets and interests under prevailing Argentinean law, standard rules and practices of securities markets in which YPF is present, and international law, including the "Agreement between the Argentinean Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection of Investments" signed in 1991.

Specifically, under the section *Procedures initiated as a consequence of the expropriation of the Group's YPF shares* in Note 10, Repsol began legal proceedings (i) based on the "Agreement between the Argentinean Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection of Investments", (ii) based on the unconstitutional nature of the YPF Intervention, and the temporary occupation by the Argentinean government of the rights over 51% of Class D YPF shares held by Repsol (iii) based on the Argentinean government's lack of performance of its obligation to make a Tender Offer for the YPF, S.A. shares prior to taking control over the company.

*Accounting treatment*

According to the facts mentioned above, loss of control of YPF and Repsol YPF Gas from Repsol has taken place; consequently, it was deconsolidated; thus, Repsol's assets, liabilities, and minority interests were derecognized, as well as the corresponding translation differences.

In accordance with the prevailing accounting regulation, from the date of loss of control, the YPF and Repsol YPF Gas activities were considered discontinued operations, and therefore the results contributed to the Group from both companies were recognized under their specific headings. At June 30, 2012 the amounts contributed by YPF and Repsol YPF Gas to "*Net Income for the period attributable to the Parent from discontinued operations*" from the results net of taxes and minority interests, since the beginning of the current year until the loss of control date, amounted to €147 million and €2 million, respectively.

The following table includes a breakdown of the assets, liabilities, and minority interests of YPF and Repsol YPF Gas which formed part of the scope of Consolidated Balance Sheet and that were derecognized:

| | Millions of euros (1) | | |
|---|---|---|---|
| **ASSETS** | **YPF** | **Repsol YPF Gas** | **Total** |
| Intangible assets: | 2,040 | 4 | 2,044 |
| a) Goodwill | 1,804 | 4 | 1,808 |
| b) Other intangible assets | 236 | | 236 |
| Property, plant and equipment | 8,781 | 32 | 8,813 |
| a) Investments in areas with reserves | 5,886 | - | 5,886 |
| b) Other exploration costs | 120 | | 120 |
| c) Machinery and installations | 1,085 | 7 | 1,092 |
| d) Items for transportation | 51 | 1 | 52 |
| e) Other tangible assets | 1,639 | 24 | 1,663 |
| Investments accounted for using the equity method | 33 | 1 | 34 |
| Non-current financial assets | 83 | - | 83 |
| Deferred tax assets | 210 | 3 | 213 |
| Other non-current assets | 97 | - | 97 |
| **NON-CURRENT ASSETS** | **11,244** | **40** | **11,284** |
| Inventories | 1,270 | 3 | 1,273 |
| Trade and other receivables | 1,120 | 29 | 1,149 |
| Other current assets | 73 | - | 73 |
| Other current financial assets | 12 | - | 12 |
| Cash and cash equivalents | 229 | 22 | 251 |
| **CURRENT ASSETS** | **2,704** | **54** | **2,758** |
| **TOTAL ASSETS** | **13,948** | **94** | **14,042** |
| **EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT** | **(589)** | **(16)** | **(605)** |
| **MINORITY INTEREST** | **2,735** | **7** | **2,742** |
| Grants | 46 | - | 46 |
| Non-current provisions | 1,623 | 5 | 1,628 |
| Non-current financial liabilities | 741 | - | 741 |
| Deferred tax liabilities | 1,063 | - | 1,063 |
| Other non-current liabilities | 30 | - | 30 |
| **NON-CURRENT LIABILITIES** | **3,503** | **5** | **3,508** |
| Current provisions | 172 | | 172 |
| Current financial liabilities | 1,250 | | 1,250 |
| Trade payables and other payables | 2,157 | 39 | 2,196 |
| **CURRENT LIABILITIES** | **3,579** | **39** | **3,618** |
| **TOTAL LIABILITIES AND MINORITY INTEREST** | **9,228** | **35** | **9,263** |
| **NET VALUE** | **4,720** | **59** | **4,779** |

(1) The assets, liabilities, and minority interests of each of the companies correspond to those recognized on the consolidated balance sheet at March 31, 2012.

(2) They correspond to the accumulated translation differences in equity related to the Group's ownership interest in YPF and Repsol YPF Gas.

Accumulated translation differences in net equity in the Group's ownership interest in YPF and Repsol YPF Gas generated until loss of control were transferred to the headings related to discontinued operations on the accompanying income statement.

Other assets and liabilities related to investments in YPF have been identified as affected by the change in control and the expropriation process. This includes the loans and guarantees granted for the Petersen Group's financing of the acquisition of its ownership interest in YPF, S.A. The accounting effects of the valuation of these transactions were recognized in the income statement headings related to discontinued operations, since they are closely linked to the expropriation process of the Group´s shares in YPF.

The Group granted the Petersen Group two loans, one granted in February 2008 for the 14.9% acquisition of YPF, S.A. and the other one for the acquisition of an additional 10% stake in May 2011; totaling at March 31, 2012 €1,518 million. These loans are guaranteed by pledged YPF Class D shares in the form of American Depositary Shares owned by the Petersen Group.

On May 30, 2012, Repsol, exercising its contractual rights, notified the Petersen group companies of the early termination of their loan agreements. In accordance with the terms of the guarantee, and in its condition of pledgee and through the collateral agent, Repsol may exercise the voting rights corresponding to YPF´s pledge shares, amounting to 5.38% of YPF's share capital.

At June 30, 2012, the Group recognized a loss on the value of these loans net of the market value of the YPF pledge shares, totaling a gross amount of €1,402 million.

The Banco Santander granted a loan of up to $198 million to Petersen, drawn down in the amount of $109 million guaranteed by Repsol. As collateral of its obligation under the guarantee, the Petersen Group pledged 2,210,192 Clase D YPF shares, in the form of American Depositary Shares, in favor of Repsol. On March 31, 2012, the corresponding amount guaranteed by Repsol amounted to $96 million (€72 million).

On May 18, 2012, the Banco Santander, sent a notice of partial default to the Petersen Group, stating that a partial default of the loan agreement had occurred resulting from the failure of Petersen to repay the May 15, 2012 installment; however, it did not accelerate the Petersen Group's obligations under the loan. By virtue of the guarantee, the Banco Santander demanded payment of the amount from Repsol as guarantor of the loan, Repsol paid $4.6 million (€3.6 million).

On June 30, 2012 a provision for the associated risks and expenses was recognized for a gross amount of €54 million, that covers the maximum amount of the liabilities assumed by Repsol, less the amount corresponding to the realizable value of the securities pledged as guarantee, representing 0.56% of YPF S.A.'s capital.

The Group does not consider that these events will lead to other consequences for Repsol arising from the execution of the contracts with the Petersen Group.

Repsol Group's ownership interest in YPF, S.A. and Repsol YPF Gas, S.A. from the shares subject to expropriation which still belong to the Group and the remaining shares, as a result of the loss of control are recognized by its nature, that is, as financial instruments. Specifically, the shares subject to expropriation were initially recognized at the amount of €5,373 million under *"Non-current assets held for sale subject to expropriation"* (€5,343 million corresponding to YPF, S.A.´s shares subject to expropiation and €30 million corresponding to Repsol YPF Gas, S.A. shares); the remaining shares, which were not included in the expropriation, were recognized as *"Available-for-sale financial assets*" at an initial amount of €300 million (€280 million corresponding to YPF and €20 million corresponding to Repsol YPF Gas).

Subsequently, changes in value of both shares classified as *Non-current assets held for sale subject to expropriation*, and those recognized in *Available-for-sale financial assets*, are recorded directly in equity as *Adjustments for changes in value* , until ownership of the shares is transferred or they are determined to be definitively impaired, at which time the accumulated profits or losses previously recognized in equity will be transferred to the income statement.

Shares´ valuation, regarding recognition purposes, was held in accordance with IAS 39. The accounting standard reference to fair value or realizable value makes it necessary to distinguish between the shares subject to expropriation and the remaining shares held by Repsol.

For the former, recognized under "*Non-current assets held for sale subject to expropriation*," fair value calculation must take as reference the expected recoverable amount as a consequence of the expropriation process, that is, the price or compensation that the Argentinean government would finally pay to Repsol. When estimating this value, Repsol took into account the valuation criteria it can reasonably expect to be applied by the state bodies and courts responsible for deciding on the price or indemnity relating to the shares subject to expropriation. Since this price or indemnity has yet to be set and may have to be decided through legal proceedings in which circumstances beyond control of the Group will influence the outcome, it should be borne in mind that the estimated recoverable amount is uncertain in terms of both quantity and the date and manner in which it will be settled. Any modifications to the hypotheses considered reasonable in terms of jurisdictional proceedings and valuation of rights subject to expropriation could generate positive and negative changes in the amount recognized for the interest in YPF, S.A. and Repsol YPF Gas, S.A. and hence in its impact on the Group's financial statements.

Repsol considers that there are solid and clear legal grounds to receive an indemnity from the Argentinean State for the damages suffered as a result of expropriation, amounting to the market value of the expropriated shares prior to expropriation. In addition, Repsol considers there are legal avenues to require compensation, which may be decided upon in the course of the expropriation procedure or through ICSID arbitration. The market value of the shareholdings can be determined for these purposes with valuation methods habitually accepted in the financial community (discounted cash flow, sum-of-the parts, multiple comparable transactions, etc.), providing results consistent with those arising from application of the stipulations included in the YPF, S.A. by-laws, which establish a precise and objective rule for determining the consideration required should the Argentinean State take control of the interest.

Articles 7 and 28 of the YPF, S.A. by-laws establish that if the Argentinean State takes control of the company, and the foreseen acquisition is equal to or greater than 15% of YPF share capital, the acquirer must launch a tender offer for all YPF, S.A. shares; which acquisition price will be paid in cash and calculated in accordance with a predetermined criteria. Application of these criteria results in a valuation of $18,300 million (€14,535 million, as per the exchange rate at the closing of June 30, 2012) for 100% of YPF shares, and $9,333 million (€7,413 million) for the 51% subject to expropriation. However, despite this reference, the Group must bear in mind the risks and uncertainties inherent in valuation, which are inevitable when estimates must be made regarding future events, particularly when such events are beyond Repsol's control. Consequently, the Group has applied conservative criteria when recognizing the shares subject to expropriation, to avoid a situation in which a higher valuation would require initial recognition of net profit from the expropriation process which, at this time, is still of a contingent nature.

Regarding YPF, S.A. shares, recorded under *"Available-for-sale financial assets*" (included in the heading *"Non-current financial assets"* on the accompanying balance sheet), they were valuated at their market value, which corresponds to their quoted price given that the shares are listed and actively traded.

Finally, since they are not traded on any active market, all Repsol YPF Gas, S.A. shares were valued using criteria analogous to those applied to the expropriated YPF, S.A. shares.

The income tax effect of all the facts described has originated the recognition of a deferred tax asset amounting to €524 million.

The net effect recognized in the Group's income statement as a result of all the effects described above in connection with the expropriation process, amounts to a loss of €38 million net of tax, recognized under "*Net income after tax for the period from discontinued operations."*

Since initial recognition until June 30, 2012, "*Non-current assets held for sale subject to expropriation*" related to YPF and Repsol YPF Gas increased by €280 million , mainly due to appreciation of the US dollar against the euro, while *"Available-for-sale financial assets*" decreased by €31 million, mainly as a result of YPF share price performance. Both effects were recognized in equity under "*Adjustments for changes in value"* (in the first case under the heading *"Other financial assets"* and in the second case under "*Financial assets held for sale*").

*Results from discontinued operations*

In 2012 this caption recognizes the results of consolidating the operations of YPF, Repsol YPF Gas, and their Group companies up to the moment of losing control. In addition, this item also includes the impact in the income statement derived from the loss of control caused by the expropriation process.

A breakdown by nature of results corresponding to discontinued operations follows:

| | Millions of euros | |
|---|---|---|
| | **06/30/2012** | **06/30/2011** |
| Operating Revenue | 2,817 | 5,155 |
| Operating Expense | (2,378) | (4,542) |
| **Operating Income** | **439** | **613** |
| Financial Result | 1 | 22 |
| Share of results of companies accounted for using the equity method | 3 | 3 |
| **Income from discontinued operations before taxes** | **443** | **638** |
| Income tax related to the results before taxes | (163) | (267) |
| **Results after taxes from discountinued operations** | **280** | **371** |
| **Results after taxes of the valuation of the assets and liabilites related to the expropiation (2)** | **(38)** | **-** |
| **NET INCOME FOR THE PERIOD FROM DISCOUNTINUED OPERATIONS AFTER TAXES** | **242** | **371** |
| Net income from discontinued operations attributable to minority interest (1) | (109) | (84) |
| **NET INCOME FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO THE PARENT** | **133** | **287** |

(1) These headings include results contributed by YPF and Repsol YPF Gas, as well as financial results related to the loan granted to the Petersen Group up to the moment of losing control.

(2) Includes the effects of (i) derecognizing the assets, liabilities, and minority interests of YPF and Repsol YPF Gas, as well as translation differences corresponding to the companies subject to expropriation, totaling € 4,779, that includes €605 million of translation differences; (ii) a provision for loans and guarantees related to the financing granted to the Petersen group, amounting to €1,456 million, as indicated in the abovementioned paragraphs; (iii) recognizing a deferred tax asset amounting to €524 million; and (iv) recognizing the Group's ownership interest in YPF and Repsol YPF Gas consisting of both, the shares subject to expropriation and the remaining shares owned, as explained in the above paragraphs, amounting to €5,673 million.

*Comparative information*

The income statement for the six-month period ended June 30, 2011 was restated to make it comparable, with respect to the information published in the interim condensed consolidated financial statements for the six-month period ended June 30, 2011, classifying the operations affected by expropriation process of the YPF, S.A. and Repsol YPF Gas, S.A. shares held by the Group under the headings referring to discontinued operations, in accordance with IFRS 5 "*Non-current assets held for sale and discontinued operations."*

In addition, the cash flow statement for the six-month period ended June 30, 2011 included in the accompanying interim condensed consolidated financial statements was restated to make it comparable, with respect to the information published in the interim condensed consolidated financial statements for the six-month period ended June 30, 2011. Thus, the cash flows corresponding to YPF, S.A. and Repsol YPF Gas, S.A. transactions were reclassified in accordance with prevailing accounting standards to specific line items showing the cash flows for discontinued operations as well as operating, investment, and financing activities.

***b) Other changes in the scope of consolidation***

In June 2012, Repsol acquired 30.95% of the Portuguese company Windplus, S.A. through a capital increase. This company was incorporated in 2009 in Portugal for development of WindFloat technology for the generation of eolic floating off-shore wind energy. €4 million was invested in this transaction and no goodwill was recognized.

This business combination has been accounted for on a provisional basis. The impact on net income at June 30, 2012 was not material. Had the operation taken place on January 1, 2012, it is estimated that the additional contribution to consolidated revenue and net income for six-month period would not have been material.

## (4) DESCRIPTION OF TRANSACTIONS DURING THE PERIOD

Note 3 of these interim condensed consolidated financial statements describes in detail the effects of the expropriation process of the Repsol Group shares in YPF, S.A. and in Repsol YPF, Gas, S.A. Other significant changes recognized in the first six months of 2012 and the most significant changes which took place in the first six months of 2011 under headings in the consolidated balance sheet are described below.

Libya was immersed in a military conflict during 2011. Consequently, production has been suspended since March 5, 2011, and gradually resumed at the end of 2011. In 2011, 3.1% of the Group's total hydrocarbon production, excluding that of YPF, was generated in Libya. During the first six months of 2012 total production in Libya was 12.8% of the Group's production, excluding the part corresponding to YPF, reaching similar production levels prior to the conflict.

*a) Other intangible assets*

In the first quarter of 2012, the Group has reached an agreement with the US company SandRidge Energy to acquire approximately 1,500 $Km^2$ of mining acreage in the Mississippian Lime area, through a 16% stake in the area known as Original Mississippian and through a 25% stake in the Mississippian extension, both of which are located in the the producing areas of Oklahoma and Kansas (United States). The initial investment amounted to $250 million (€194 million). The reminder will be paid over a three year period for a total amount investment of €1.000 million.

*b) Property, plant and equipment*

The main investments made in the first half of 2012 corresponded to exploration and production assets in United States (€327 million), Brazil (€120 million), Trinidad & Tobago (€88 million), Venezuela (€74 million), Perú (€67 million), and Bolivia (€65 million). In addition, during this period, significant investments were made in refining assets in Spain (€296 million). Moreover, in 2012 the investments made by YPF and Repsol YPF Gas and its investees prior to the loss of control amounted to €328 million.

Also in the first half of 2012, €802 million were also reclassified from property, plant, and equipment under construction, principally to the heading machinery and facilities, due to the start up of the expansion and upgrade work performed at the Petronor refinery.

The main investments made in the first half of 2011 corresponded to exploration and production assets in United States (€107 million), Brazil (€105 million), Venezuela (€55 million), Trinidad & Tobago (€37 million), Bolivia (€68 million), Peru (€51 million) and Spain (€26 million). In addition, during this period, significant investments were made in refining assets in Spain (€481 million) corresponding to the increase-capacity at the

Cartagena Refinery, and the construction of the coke unit and other ancillary facilities at the Petronor refinery (in Bilbao). Investments made during this period by YPF and Repsol YPF Gas and its investees amounted to €741 million, which corresponded primarily to exploration and production assets in Argentina.

*c) Non-current assets and liabilities held for sale*

<u>Assets classified as held for sale and associated liabilities during the six-month period ended June 30, 2012</u>

Repsol has reached an agreement to sale its Liquified Petroleum Gas (LPG) business in Chile, through its subsidiary Repsol Butano Chile, S.A. As a consecuence of this transaction, at June 30, 2012, the Group has classified these assets and liabilities as assets and liabilities held for sale, amounting to €140 million (net) in accordance with the following detail:

| | Millions of euros<br>2012 |
|---|---|
| Goodwill | 92 |
| Tangible assets and other intangible assets | 90 |
| Other non-current assets | 9 |
| Current assets | 32 |
| **TOTAL ASSETS** | **223** |
| Minority interests | 4 |
| Non- current liabilities | 44 |
| Current liabilities | 35 |
| **TOTAL LIABILITIES AND MINORITY INTERESTS** | **83** |
| **NET VALUE** | **140** |

On June 30, 2011, Gas Natural Fenosa agreed to sell approximately 245,000 gas supply customers and associated contracts in the Madrid region for €11 million. Since the date of agreement, these assets have been classified as non-current assets held for sale. Having secured all the required permits, the sale to Endesa was closed on February 29, 2012. The transaction generated a €6 million pre-tax gain. The amounts in millions of euros are stated at the Group's proportionate interest in Gas Natural Fenosa.

<u>Assets classified as held for sale during the six-month period ended June 30, 2011 and associated liabilities</u>

On February 7, 2011, Gas Natural Fenosa agreed to sell approximately 300,000 gas supply points in the Madrid region to a company of the Group Madrileña Red de Gas for €136 million. From the date this agreement was reached, these assets were classified as non-current assets held for sale. Upon receipt of the corresponding permits, the sale was closed on June 30, 2011, generating a pre-tax gain of €84 million. The amounts in millions of euros are stated at the Group's proportionate interest in Gas Natural Fenosa.

On August 2, 2010 Gas Natural Fenosa and Enel Green Power agreed to terminate the renewable energy venture held by both parties until that time through Enel Unión Fenosa Renovables, S.A. (EUFER). From that time the portion of the assets and liabilities recognized in Gas Natural Fenosa's consolidated balance sheet to be spun out to Enel Green Power were recognized as non-current assets and liabilities held for sale. Having secured all required permits, the transaction was closed on May 27, 2011. For accounting purposes this transaction was considered a swap between the assets and liabilities which were derecognized at their carrying amount in the consolidated balance sheet and the business acquired which was recognized and measured at fair value, based on a valuation from independent third parties. This business combination generated a pre-tax accounting loss of €1 million in 2011. The amounts in millions of euros are stated at the Group's proportionate interest in Gas Natural Fenosa.

*d) Equity*

*1. Share Capital and reserves*

On May 31, 2012, The Ordinary General Shareholders´ Meeting approved two capital increases for the instrumentation of the shareholders remuneration scheme called "Flexible Dividend Programme", which allows the shareholders to decide wether they will receive their compensation, in cash or in Repsol shares.

Subsequent to the general meeting held on May 31, the Board of Directors approved the execution of the first capital increase. Free-of-charge allocation rights were admitted to trading on Spainsh Stock Exchanges between June 21, and July 5, 2012. Holders of 63.64% of the free-of-charge allocation rights (of a total of 776,935,821 rights) opted to receive new shares of Repsol in the proportion of one share per every 22 rights.

Moreover, during the period established for that purpose, the holders of 36.36% of the free-of-charge allocation rights (443,893,565 rights), accepted the irrevocable commitment to purchase rights assumed by Repsol at a fixed price of 0.545 euros (gross) per right. Accordingly, Repsol acquired the abovementioned rights for a total amount of €242 million and waived the shares corresponding to the free-of-charge allocation rights acquired by virtue of the mentioned commitment. As a consecuence of the previous, it was recognized a decrease in equity under *"Prior year results and other reserves"* and, the payment obligation with the shareholders who had accepted this irrevocable purchase commitment.

The final number of shares of 1 euro par value issued in the capital increase was 35,315,264, representing an increase of approximately 2.89% of the share capital of Repsol before the capital increase.

This capital increase was filed with the Madrid Mercantile Registry on July 10, 2012 and the new shares were listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Spanish Automated Quotation System (*Mercado continuo*, by its name in Spanish) on July 13, 2012. Repsol will also apply for the listing of the new shares in the Buenos Aires Stock Exchange.

Subsequent to the capital increase, Repsol, S.A.'s share capital amounted to €1,256,178,727 fully subscribed and paid in, consisting of 1,256,178,727 shares with a nominal value of 1 euro each.

This capital increase was filed with the Mercantile Register prior to the authorization of these interim condensed consolidated financial statements for issue, and, accordingly, was recognized in the Group financial statements with accounting effects June 30, 2012, in compliance with prevailing accounting criteria.

*2. Treasury shares and own equity investments*

In January 2012, Repsol made a placement among profesional and qualified investors of 61,043,173 of its own shares (treasury shares), representing 5% of Repsol share capital at a price of 22.35 euros per share for a total amount of €1,364 million. Repsol agreed with the placing entities that the remaining 5% of the treasury shares that was still held on that date will have a lock up period of 90 days. At the date of autorizing this interim condensed consolidated financial statements for issue the lock up period was finalized.

Under the framework of the Share Acquisition Plan approved by the Ordinary General Shareholders' Meeting held on April 15, 2011, during the first six months of 2012, the Group acquired a total of 264,398 shares, representing 0.021% of share capital recognized at June 30, 2012 (amounting to 1,256,178,727 euros) at a cost of €4.4 million. These shares have been delivered to the employees of the Repsol Group who subscribed to the plan.

Additionally, during the first six months of 2012, the Group purchased 3,566,237 treasury shares, representing 0.28% of share capital recognized at June 30, 2012, with a nominal value of 1 euro per share, amounting to €52 million. At June 30, 2012 these shares had not been sold.

At June 30, 2012, the treasury shares held by Repsol or any of its Group companies, represented 5.1% of share capital recognized on that same date. In July 2012, the Group received a total of 2,936,791 new shares corresponding to treasury shares, representing 0.23% of Repsol share capital, as a result of the capital increase described in section *1. Share Capital and reserves* above.

At December 31, 2011, the treasury shares held by Repsol or any of its Group companies, represented 10% of its share capital. At June 30, 2011 neither Repsol nor any of its Group companies held treasury shares.

*3. Earnings per share*

At June 30, 2012 and 2011 earnings per share were the following:

| | **2012** | **2011** |
|---|---|---|
| Net income attributable to the parent company (millions of euros) | 1,036 | 1,344 |
| Net income attributable to the parent company from discontinued operations (millions of euros) | 133 | 287 |
| Weighted average number of outstanding shares at June, 30 | 1,190,466,357 | 1,256,178,727 |

**EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT COMPANY**
(Euros)

| | **2012** | **2011** |
|---|---|---|
| Basic | | |
| EPS attributable to the parent company | 0.87 | 1.07 |
| EPS attributable to the parent company from discountinued operations | 0.11 | 0.23 |
| Diluted | | |
| EPS attributable to the parent company | 0.87 | 1.07 |
| EPS attributable to the parent company from discountinued operations | 0.11 | 0.23 |

Issued Share Capital was increased in July 2012 as part of a shareholder compensation scheme, known as the "Flexible Dividend Programme", described in Section 1. *Share Capital and reserves* above, which was recognized with accounting effects as of June 30, and therefor issued share capital at that date consisted of 1,256,178,727 shares.

Outstanding issued shares at June 30, 2011 amounted to 1,220,863,463 shares.

However, the weighted average number of shares outstanding at that date had been modified compared to that used to calculate the profit per share in the interim condensed consolidated financial statements at June 30, 2011 to include the effect of this capital increase, in accordance with the applicable accounting regulations.

*e) Impairment of assets*

Repsol performs an impairment test of its intangible assets, its property, plant and equipment, and other fixed assets, as well as its goodwill, at least annually, or whenever any indicator of impairment exists, in order to determine whether there is an impairment of assets.

During the interim periods ended June 30, 2012 and 2011 no material asset impairment provisions have been registered.

## (5) SEGMENT REPORTING

The Group's organizational structure is oriented at achieving the Group company's growth plans as well as setting the base for future developments.

As a result of the expropriation process, the portion of Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A. subject to expropriation was classified as *Non-current assets held for sale subject to expropriation* and the share in both companies not subject to expropriation as *Available-for-sale financial assets.* The activities of both companies and others relating to the expropriation process were considered discontinued operations (see section *Results from discontinued operations* under section a) *Expropriation of Repsol Group shares in YPF, S.A. and Respsol YPF Gas, S.A.* of Note 3. *Changes in the structure of the Group*).

Accordingly, the YPF operations no longer comply with the segment definition. Furthermore, until the intervention date, investment in Repsol YPF Gas and loans granted to the Petersen Group were presented in Downstream and Corporation segments respectively, and are no longer included therein. The following information presented by segment relating to the first six months of 2011 has been restated with regard to that previously published in the six-month interim financial statements for the first six months of 2011 in compliance with IFRS 5, *Non-current assets held for sale and discontinued operations* and IFRS 8 *Operating Segments* without including the activities mentioned within the Operating Segments.

The Group's operating segments at June 30, 2012 were as follows:

- Upstream, corresponding to the exploration and development operations of crude oil and natural gas reserves;
- LNG, corresponding to the Liquid Natural Gas business;
- Downstream, corresponding to Refining & Marketing for oil products, Chemicals and LPG, and
- Gas Natural Fenosa, through its strategic participation in Gas Natural SDG, S.A., whose main activities are the marketing of natural gas and the generation, distribution, and marketing of electricity.

The principal figures of the Group's income statement attending to this organization are shown below:

*Operating revenues by segment*

| Millions of euros | Operating revenue from customers | | Operating revenue among segments | | Total operating revenue | |
|---|---|---|---|---|---|---|
| **SEGMENTS** | **06/30/2012** | **06/30/2011 (1)** | **06/30/2012** | **06/30/2011 (1)** | **06/30/2012** | **06/30/2011 (1)** |
| Upstream | 1,837 | 1,486 | 709 | 395 | 2,546 | 1,881 |
| LNG | 1,308 | 1,273 | 178 | 103 | 1,486 | 1,376 |
| Downstream | 22,305 | 20,428 | 55 | 77 | 22,360 | 20,505 |
| Gas Natural Fenosa | 3,620 | 3,139 | 165 | 85 | 3,785 | 3,224 |
| Corporate | 8 | 4 | 153 | 184 | 161 | 188 |
| (-) Adjustments and eliminations of operating revenue among segments (2) | | | (1,260) | (844) | (1,260) | (844) |
| **TOTAL** | 29,078 | 26,330 | - | - | 29,078 | 26,330 |

(1) The information relating to the first six months of 2011 has been restated to make it comparable with respect to the information published in the interim condensed consolidated financial statements for the period ended June 30, 2011, taking into account that YPF and Repsol YPF Gas do not form a part of Repsol's operating segments at June 30, 2012.
(2) These correspond primarily to the elimination of commercial transactions between segments.

*Results by segment*

| | Millions of euros | |
|---|---|---|
| **SEGMENTS** | **06/30/2012** | **06/30/2011 (1)** |
| Upstream | 1,144 | 806 |
| LNG | 237 | 168 |
| Downstream | 277 | 744 |
| Gas Natural Fenosa | 475 | 512 |
| Corporation | (167) | (121) |
| **Total operating income related to reported** | **1,966** | **2,109** |
| Results unassigned (Financial results) | (433) | (374) |
| Other results (Results of companies accounted for the equity method) | 66 | 33 |
| **NET INCOME BEFORE TAX** | **1,599** | **1,768** |
| Income Tax | (674) | (645) |
| **Net income for the period from continuing operations** | **925** | **1,123** |
| Net income from countinuing operations attributable to minority interests | (22) | (66) |
| **NET INCOME FOR THE PERIOD ATTRIBUTABLE TO PARENT FROM CONTINUING** | **903** | **1,057** |
| **Net income for the period from discountinued operations after taxes** | **242** | **371** |
| Net income from discontinued operations attributable to minority interests | (109) | (84) |
| **NET INCOME FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO THE PARENT** | **133** | **287** |
| **TOTAL NET INCOME ATTRIBUTABLE TO THE COMPANY** | **1,036** | **1,344** |

(1) The information relating to the first six months of 2011 has been restated to make it comparable; with respect to the information published in the interim condensed consolidated financial statements for the period ended June 30, 2011, taking into account that YPF, Repsol YPF Gas and Petersen loans do not form a part of Repsol's operating segments at June 30, 2012.

The following table details total assets by segment:

| Segments | Millons of euros 06/30/2012 | 06/30/2011 (1) |
|---|---|---|
| Upstream | 12,078 | 11,025 |
| LNG | 4,380 | 4,425 |
| Downstream | 19,500 | 19,806 |
| YPF | - | 14,037 |
| Gas Natural Fenosa | 12,703 | 12,968 |
| Corporate (2) | 8,586 | 8,696 |
| **Total Assets by segment (3)** | **57,247** | **70,957** |
| Assets from discontinued operations (See Note 3) (1) (4) | **6,130** | - |
| **TOTAL ASSETS** | **63,377** | **70,957** |

(1) At December 31, 2011 YPF was considered a business segment. Furthermore, the Downstream segment included €74 million of assets corresponding to Repsol YPF Gas, while the Corporate segment included €535 million corresponding to financial assets owned by YPF and Repsol YPF Gas. After loss of control (Note 3), the Group's assets in both companies are considered assets from discontinued operations.
(2) At June 30, 2012 and December 31, 2011 this includes financial assets amounting to €4,785 million and €5,303 million, respectively.
(3) Each segment includes its correspondent investments accounted for using the equity method.
(4) Includes assets related to the YPF and Repsol YPF Gas expropriation process (Note 3).

In addition, the distribution of the net amount of turnover (comprising "*Sales*" and "*Services rendered and other income*" headings on the accompanying interim consolidated income statement), by geographic area depending on the markets to which they correspond, is as follows:

| Geographic area | Millons of euros 06/30/2012 | 06/30/2011 (1) |
|---|---|---|
| Spain | 15,230 | 14,196 |
| Other in the European Union | 4,254 | 3,452 |
| Others in the O.E.C.D. countries | 2,713 | 2,533 |
| Other countries | 6,508 | 5,169 |
| **TOTAL** | **28,705** | **25,350** |

(1) The information relating to the first six months of 2011 has been restated to make it comparable with respect to the information published in the interim condensed consolidated financial statements for the period ended June 30, 2011, taking into account that YPF and Repsol YPF Gas are considered discontinued operations at June 30, 2012. At June 30, 2011 the contributions made by the aforementioned companies, excluded in the previous table, amounted to €31 million in Spain, €45 million in the rest of the European Union, €72 million in the rest of O.E.C.D countries, and €4,738 million in other countries.

## (6) DISCLOSURE OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY

*a) Financial assets*

This note discloses the following concepts included on the balance sheet headlines, as follows:

| | Millons of euros | |
|---|---|---|
| | **06/30/2012** | **12/31/2011** |
| Non-current financial assets | 1,269 | 2,450 |
| Derivatives on non-current commercial transactions (1) | 2 | - |
| Other current financial assets | 473 | 674 |
| Derivatives on current commercial transactions (2) | 69 | 68 |
| Cash and cash equivalents | 3,953 | 2,677 |
| | **5,766** | **5,869** |

(1) Recognized under "*Other non-current assets*" on the balance sheet.
(2) Recognized under the "*Other receivables*" on the balance sheet.

The detail of the Group's financial assets by categories at June 30, 2012 and December 31, 2011, is as follows:

| Millions of euros | **June 30, 2012** | | | | | | |
|---|---|---|---|---|---|---|---|
| **Nature/Category** | **Financial assets held for trading** | **Other financial assets at fair value through profit or loss** | **Financial assets available for sale** | **Loans and receivables** | **Held to maturity investments** | **Hedging derivatives** | **Total** |
| Equity instruments | - | - | 381 | - | - | - | 381 |
| Derivatives | 2 | - | - | - | - | - | 2 |
| Other financial assets | - | 65 | - | 813 | 10 | - | 888 |
| **Long Term / Non-current** | **2** | **65** | **381** | **813** | **10** | **-** | **1,271** |
| Derivatives | 101 | - | - | - | - | - | 101 |
| Other financial assets | - | 16 | - | 416 | 3,962 | - | 4,394 |
| **Short term / Current** | **101** | **16** | **-** | **416** | **3,962** | **-** | **4,495** |
| **TOTAL (1)** | **103** | **81** | **381** | **1,229** | **3,972** | **-** | **5,766** |

| Millions of euros | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Nature/Category** | **Financial assets held for trading** | **Other financial assets at fair value through profit or loss** | **Financial assets available for sale** | **Loans and receivables** | **Held to maturity investments** | **Hedging derivatives** | **Total** |
| Equity instruments | - | - | 128 | - | - | - | 128 |
| Derivatives | - | - | - | - | - | - | - |
| Other financial assets | - | 65 | - | 2,212 | 45 | - | 2,322 |
| **Long Term / Non-current** | **-** | **65** | **128** | **2,212** | **45** | **-** | **2,450** |
| Derivatives | 176 | - | - | - | - | 58 | 234 |
| Other financial assets | - | 84 | - | 463 | 2,638 | - | 3,185 |
| **Short term / Current** | **176** | **84** | **-** | **463** | **2,638** | **58** | **3,419** |
| **TOTAL (1)** | **176** | **149** | **128** | **2,675** | **2,683** | **58** | **5,869** |

(1) These amounts do not include trade receivables that are recognized under "*Other non-current assets*" and under the headings "*Trade receivables*" and "*Other receivables*" in the balance sheet, totaling €249 million in the long term and €7,386 million short term. At December 31, 2011 the aforementioned long term and short term trade receivables amounted to €344 million and €8,634 million, respectively. At June 30, 2012 this likewise does not include €5,653 million classified under "*Non-current assets held for sale subject to expropriation.*"

Heading "*Equity instruments*" in column "*Financial assets available for sale*", at June 30, 2012, includes €269 million corresponding to 6.43% of YPF, S.A. shares and 33.997% of Repsol YPF Gas, S.A. shares held by Repsol not subject to expropriation by the Argentinean government (Note 3).

At December 31, 2011, "*Non-current loans and receivables*" includes €1,542 million corresponding to the loans granted to the Petersen Group in February 2008 and May 2011 for the acquisition of their interest in YPF, S.A. An impairment loss of €1,402 million on these loans was recognized in the first six months of 2012. The net amount recognized in connection with these loans at June 30, 2012 amounted to €208 million, corresponding to the market value of the YPF, S.A. pledged shares which the Group is holding as a financial collateral guarantee for the loans (Note 3, *Accounting treatment* in section *a) Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.*).

The column "*Current loans and receivables*" includes €320 million and €370 million at June 30, 2012 and December 31, 2011 respectively, corresponding to the Group´s share of the funding of the electricity tariff deficit through its ownership interest in Gas Natural Fenosa. During the first six months of 2012, Spain's electricity tariff deficit securitization fund completed eleven issueances, with Gas Natural Fenosa collecting €110 million as a result. The figures stated correspond to the Repsol Group's proportionate interest in Gas Natural Fenosa.

In June 2012, Repsol Sinopec Brasil, in which the Group has a 60% stake, acquired Spanish sovereign debt amounting to €23 million and maturing in September 2012. This transaction was recognized at June 30, 2012 under "*Cash and cash equivalents*" and classified as "*Other financial assets held to maturity*" in the previous table.

*b) Financial Liabilities*

This note discloses the financial liabilities, included in the following headings of the consolidated balance sheet and that corresponds to:

| | Millions of euros | |
|---|---|---|
| | **06/30/2012** | **12/31/2011** |
| Non-current financial liabilities (1) | 15,357 | 15,345 |
| Derivatives on non-current commercial transactions (2) | 6 | 3 |
| Current financial liabilities (1) | 3,020 | 4,985 |
| Derivatives on current commercial transactions (3) | 27 | 42 |
| | **18,410** | **20,375** |

(1) As a consequence of the expropriation process of YPF and Repsol YPF Gas shares held by the Group (Note 3, *Accounting treatment* in section *a) Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.*), the non-current and current financial liabilities of both companies, amounting to €838 million and €1,468 million respectively at December 31, have been derecognized.
(2) Recognized under the heading "*Other non-current liabilities*" on the balance sheet.
(3) Recognized under the heading "*Other payables*" on the balance sheet.

The detail of the financial liabilities as of June 30, 2012 and December 31, 2011 is as follows:

| Millions of euros | **June 30, 2012** | | | |
|---|---|---|---|---|
| **Nature/Category** | **Financial liabilities held for trading** | **Debts and payable items** | **Hedging derivatives** | **Total** |
| Bank borrowings | - | 3,656 | - | 3,656 |
| Bonds and other securities (1) | - | 11,459 | - | 11,459 |
| Derivates | 13 | - | 235 | 248 |
| **Long term debts / Non-current financial liabilities** | **13** | **15,115** | **235** | **15,363** |
| Bank borrowings | - | 2,152 | - | 2,152 |
| Bonds and other securities (1) | - | 815 | - | 815 |
| Derivates | 71 | - | 9 | 80 |
| **Short term debts / Current financial liabilites** | **71** | **2,967** | **9** | **3,047** |
| **TOTAL (2)** | **84** | **18,082** | **244** | **18,410** |

| Millions of euros | December 31, 2011 | | | |
|---|---|---|---|---|
| **Nature/Category** | **Financial liabilities held for trading** | **Debts and payable items** | **Hedging derivatives** | **Total** |
| Bank borrowings | - | 4,806 | - | 4,806 |
| Bonds and other securities (1) | - | 10,331 | - | 10,331 |
| Derivatives | 6 | - | 203 | 209 |
| **Long term debts / Non-current financial liabilities** | **6** | **15,137** | **203** | **15,346** |
| Bank borrowings | - | 2,896 | - | 2,896 |
| Bonds and other securities (1) | - | 2,006 | - | 2,006 |
| Derivatives | 115 | - | 12 | 127 |
| **Short term debts / Current financial liabilities** | **115** | **4,902** | **12** | **5,029** |
| **TOTAL (2)** | **121** | **20,039** | **215** | **20,375** |

(1) Includes preference shares amounting to €3,211 million and €3,179 million at June 30, 2012 and December 31, 2011, respectively, of which €32 million were recognized as current financial liabilities at June 30, 2012.

(2) At June 30, 2012 and December 31, 2011, €2,892 million and €2,864 million were shown in the balance sheet under "*Other non-current liabilities*", and €230 million and €223 million, respectively under "*Other payables*" corresponding to finance leases recorded under the amortized cost method and not included in the above table.

In June 2012 the Group closed two financing transactions for a total €750 million, both independent of each other, via the contracting of certain derivative instruments maturing in 12 months, recognized under "*Bank borrowings*, *bonds*, *and other securities*" in the Group's balance sheet. The Group has granted financial collateral guarantees, regulated by Royal Decree Law 5/2005, for the payment obligations associated with the aforementioned derivative instruments. The guarantee is in the form of 78,135,484 Gas Natural SDG pledged shares held by the Repsol Group, representing 7.81% of said entity's share capital. The abovementioned operations do not imply any transfer of ownership with respect to the Gas Natural SDG, S.A. shares, retaining Repsol the inherent voting and economic rights.

Below is a disclosure of issues, repurchases, and redemptions of debt securities (recognized under current and non-current "*Bonds and other securities*" in the previous table) which have taken place during the six-month periods ended June 30, 2012 and 2011:

| Millions of euros | **Balance at 12/31/2011** | **(+) Issues** | **(-) Repurchases or redemptions** | **(+/-) Exchange rate and other adjustments** | **(-) Deconsolidation of YPF and R. YPF Gas** | **Balance 06/30/2012** |
|---|---|---|---|---|---|---|
| Bonds an other debt securities issued in the European Union with Prospectus | 11,836 | 3,916 | (3,856) | 52 | - | 11,948 |
| Bonds an other debt securities issued in the European Union without Prospectus | - | - | - | - | - | |
| Bonds and other debt securities issued outside of the European Union | 501 | - | - | 5 | (180) | 326 |
| **TOTAL** | **12,337** | **3,916** | **(3,856)** | **57** | **(180)** | **12,274** |

| Millions of euros | **Balance at 12/31/2010** | **(+) Issues** | **(-) Repurchases or redemptions** | **(+/-) Exchange rate and other adjustments** | **Balance 06/30/2011** |
|---|---|---|---|---|---|
| Bonds an other debt securities issued in the European Union with Prospectus | 11,453 | 2,493 | (2,846) | 41 | 11,141 |
| Bonds an other debt securities issued in the European Union without Prospectus | - | - | - | - | - |
| Bonds and other debt securities issued outside of the European Union | 988 | 128 | (578) | (31) | 507 |
| **TOTAL** | **12,441** | **2,621** | **(3,424)** | **10** | **11,648** |

*Main debt issues and cancellations in the first six months of 2012.*

On January 29, 2012, the Group, through Repsol International Finance, B.V made a €750 million 7 year and 1 month bond issue at a fixed interest rate of 4.875%. This issue, was increased on February 7, 2012 with another bond issue amounting to €250 million, with the same interest rate and maturity. Both bond issues, guaranteed by Repsol, S.A. were consolidated in the same serie, amounting to €1,000 million and listed on the Luxemburg Stock Exchange under the program "Euro 10,000,000,000 *Guaranteed Euro Medium Term Program* (EMTN)" registered on October 27, 2011 and approved by the *Comission de Surveillance du Secteur Financier* (CSSF) of Luxemburg with a maximum amount of €10,000 million.

In January 2012, Gas Natural Fenosa issued €225 million (amounts stated at the Group's proportionate interest in Gas Natural Fenosa) of bonds in the Eurobond market under its *Euro Medium Term Notes*, a medium-term debt issuance program (EMTN). The limit of this program at June 30, 2012 amounted to €12,000 million.

In addition, in the first six months of 2012 Gas Natural Fenosa continued issuing debt under its *Euro Commercial Paper* program (ECP) and its promissory note program, amounting to an aggregate total of €389 million (€397 million at June 30, 2011) (amounts stated at the Group's proportionate interest in Gas Natural Fenosa).

Since 2010, the Group held, through its subsidiary, Repsol International Finance, B.V, an *Euro Commercial Paper* program (ECP), guaranteed by Repsol, S.A. amounting to €2.000 million. During the first six months of 2012, Repsol International Finance, B.V. issued nominal amounts of €1,843 million and $5 million under the ECP program. During the first six months of 2011, ECP issues amounted to €1,748 million and $25 million under this program. The effective balance outstanding under this program stood at €235 million and €765 million at June 30, 2012 and 2011, respectively.

On June 7, 2011 Repsol, S.A. signed a promissory note issue program for an amount of €500 million. During the first six months of 2012, Repsol issued promissory notes for a nominal amount of €455 million under this program. The nominal balance outstanding under this program amounted to €50 million at June 30, 2012.

*Other relevant debt issues and cancellations in the first six months of 2011*

On February 8, 2011, the $725 million of Series A preference shares issued by Repsol International Capital Ltd. and guaranteed by Repsol S.A. were redeemed.

On January 25 and May 10, 2011, Gas Natural Fenosa issued €180 million and €150 million of bonds in the euromarket under its *Euro Medium Term Notes* (EMTN) program which were due 6 and 8 years respectively, (amounts stated at the Group's proportionate interest in Gas Natural Fenosa).

In May 2011, Gas Natural Fenosa, through its subsidiary Gas Natural México, S.A. de C.V., registered a 3,001 million Mexican peso (€163 million) security issuance program (*certificados bursatiles*) with the Mexican Stock Exchange. In May 20, 2012, a total of 1,200 million Mexican pesos (€72 million) of four and seven year debt, secured by Gas Natural SDG, S.A., have been issued under this program (amounts stated at the Group's proportionate interest in Gas Natural Fenosa).

The amounts guaranteed by Group companies in the interim periods ending June 30, 2012 and 2011 for issues, repurchases, or redemptions made by associates, jointly controlled entities (for the percentage not included in the consolidation process) or non-Group companies, are detailed below:

**GUARANTEED ISSUES**
Millions of euros

| | Balance at 12/31/2011 | (+) Granted | (-) Cancelled | (+/-) Exchange rate and other | Balance at 06/30/2012 |
|---|---|---|---|---|---|
| Debt security issues guaranteed by the Group (amount guaranteed) | 31 | - | (2) | 1 | 30 |

| | Balance at 12/31/2010 | (+) Granted | (-) Cancelled | (+/-) Exchange rate and other | Balance at 06/30/2011 |
|---|---|---|---|---|---|
| Debt security issues guaranteed by the Group (amount guaranteed) | 30 | - | - | (2) | 28 |

## (7) DIVIDENS PAID

Dividends paid by Repsol, S.A. in the six-month period ended June 30, 2012 and 2011 were as follows:

| | **06/30/2012** | | | **06/30/2011** | | |
|---|---|---|---|---|---|---|
| | **% on nominal amount** | **Euros per share** | **Amount (1)** | **% on nominal amount** | **Euros per share** | **Amount (2)** |
| Ordinary shares | 57.75% | 0.5775 | 635 | 52.50% | 0.525 | 641 |
| Remaining shares (without vote, redeemable, etc) | - | - | - | - | - | - |
| **Total dividens paid** | | | | - | - | - |
| a) Dividends charged to profits | 57.75% | 0.5775 | 635 | 52.50% | 0.525 | 641 |
| b) Dividends charged to reserves or share premium issues | - | - | - | - | - | - |
| c) Dividends in kind | - | - | - | - | - | - |

(1) This amount relates to the 2011 interim dividend that has been paid on January 10, 2012. Corresponds to the payment for each of the Company's outstanding shares with remuneration rights.
(2) This amount relates to the 2010 interim dividend payment, paid to the shareholders on January 13, 2011.

Repsol implemented for the first time a shareholder compensation scheme known as "Flexible Dividend Programme" (Note 4, section *d) Equity – 1.Share Capital and reserves)* instead of the tradicional final dividend payment of 2011.

## (8) TAX SITUATION

For the calculation of this period's corporate income tax, the effective tax rate that would be applicable to the total profits expected for the yearly period was used, so that the tax expense for the interim period is the result of applying the estimated average effective tax rate for the year to the result before taxes in the interim period. However, the tax effects derived from occasional events or unique transactions undertaken during the period are fully taken into account in the period.

The effective tax rate for the first half of 2012 applicable to continuing operations was estimated at 44%, which is over the estimate for the same period of the previous year (37.2%); this is mainly due to increased profits in areas with higher tax burdens, such as Upstream businesses, and especially the Libyan operation.

## (9) RELATED PARTIES TRANSACTIONS

Repsol undertakes transactions with related parties under general market conditions. For purposes of presenting this information, related parties are considered to be the following:

a. Major shareholders: according to the latest information available, the major shareholders in the company that are considered related parties of Repsol are:

   – Caixa Bank, S.A. (belonging to the Caixa Group) has a total direct and indirect interest of 12.53% in Repsol´s share capital.
   – Sacyr Vallehermoso, S.A. which has a total interest of 9.73% in Repsol´s share capital through its subsidiary Sacyr Vallehermoso Participaciones Mobiliarias, S.L.;
   – Petróleos Mexicanos (Pemex) has a total interest of 9.43% in Repsol's share capital, through PMI Holdings, B.V., Pemex Internacional España, S.A., through various financial instruments which entitle Pemex to exercise dividend and voting rights.

   Repsol, S.A. shares are represented by the book entry method, and therefore it is not possible to ascertain its precise shareholder structure. As a result, the figures provided reflect the information in the hands of Repsol, S.A. at June 30, 2012 on the basis of the latest reports provided by Spain’s central clearing house, IBERCLEAR (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.) and the information submitted by the Company's shareholders at General Shareholders' Meetings and to Spain’s securities market regulator (the CNMV for its acronym in Spanish) in compliance with its transparency requirements.

b. Directors and Executives: includes members of the Board of Directors and of the Executive Committee.

c. Group companies for the part not owned by the Group: includes transactions with Group companies or entities for the part not eliminated in the consolidation process (corresponding to the part not owned in the proportionately consolidated companies and the transactions undertaken with companies accounted for using the equity method). When control of YPF, S.A. and Repsol YPF Gas, S.A. was lost (see Note 3 a. *The Expropriation of Repsol Group Shares in YPF, S.A. and Repsol YPF Gas, S.A.*), they ceased to be considered Group companies.

Income and expenses, as well as other transactions, recorded during the first half of 2012 in respect of transactions with related parties have been as follows:

| **EXPENSES AND INCOME:** Thousands of euros | June 30, 2012 | | | |
|---|---|---|---|---|
| | Major shareholders | Directors and executives (1) | Persons, companies or entities within the Group (2) | Total |
| Finance expenses | 8,497 | - | - | 8,497 |
| Management or cooperation agreements | - | - | 283 | 283 |
| Transfer of R&D and licenses agreements | - | - | 51 | 51 |
| Operating leases | 971 | - | 12,190 | 13,161 |
| Receipts from services | 1,317 | - | 195,569 | 196,886 |
| Purchase of goods (finished or in progress) (3) | 1,852,000 | - | 2,909,374 | 4,761,374 |
| Loss from the removal or sale of assets | - | - | 275 | 275 |
| Other expenses | 7,724 | - | 9,022 | 16,746 |
| **EXPENSES** | **1,870,509** | **-** | **3,126,764** | **4,997,273** |
| | | | | |
| Finance income | 13,875 | 2 | 8,979 | 22,856 |
| Management or cooperation agreements | - | - | 1,148 | 1,148 |
| Transfer of R&D and licenses agreements | - | - | 949 | 949 |
| Dividends received | - | - | - | - |
| Operating leases | 392 | - | - | 392 |
| Services rendered | 20,200 | - | 23,044 | 43,244 |
| Sale of goods (finished or in progress) | 129,677 | - | 682,640 | 812,317 |
| Profit from the removal or sale of assets | - | - | 1,424 | 1,424 |
| Other income | 2,567 | - | 34,845 | 37,412 |
| **INCOME** | **166,711** | **2** | **753,029** | **919,742** |

| **OTHER TRANSACTIONS** Thousands of euros | June 30, 2012 | | | |
|---|---|---|---|---|
| | Major shareholders | Directors and executives (1) | Persons, companies or entities within the Group (2) | Total |
| Purchases of tangible, intangible or other assets | 60,600 | - | 30 | 60,630 |
| Finance agreements: credits and capital contribution (lender) | - | 156 | 264,065 | 264,221 |
| Amortization or cancellation of credits and lease agreements (lessor) | - | - | - | - |
| Sale of tangible, intangible or other assets | 104,732 | - | 828 | 105,560 |
| Finance agreements: credits and capital contributions (borrower) (4) | 801,818 | - | 6,192 | 808,010 |
| Amortization or cancellation of loans and lease agreements (lessee) | - | - | - | - |
| Guaranteed given | 162,420 | - | 201,239 | 363,659 |
| Guarantees received | 57,927 | - | 268 | 58,195 |
| Commitments acquired (5) | 698,378 | - | 14,302,142 | 15,000,520 |
| Commitments/ guaranties cancelled | 3,020 | - | 26,764 | 29,784 |
| Dividends and other profit distributed (6) | 315,117 | 319 | - | 315,436 |
| Other transactions (7) | 1,621,428 | - | - | 1,621,428 |

(1) Includes those transactions with Directors and Executives not included in note 12 on Compensations received by Directors and Executives, which corresponded to the present outstanding balance of the loans granted to senior management and the corresponding interest accrued, as well as dividends received from group companies, as well as dividends received from holding shares in the Group.
(2) The Income and Expenses table includes transactions carried out by Group companies with YPF, Repsol YPF Gas, and their respective group companies until control was lost (see Note 3). On the contrary Other transactions table does not include any balances with those companies.

(3) These purchases include those made under the provisions of a crude oil purchase contract signed for an indeterminate period with the Pemex Group, wich in 2012 amounts of 100,000 barrels per day.
(4) This includes credit facilities for the maximum amount granted, totaling €563 million.
(5) Correspond to firm purchase commitments outstanding at the reporting date, net of firm sales commitments.
(6) Amounts recognized as dividends and other profits distributed to significant shareholders, executives and directors include payment of a 2011 interim dividend on January 10, 2012. The amount collected in July 2012 by significant shareholders related to free bonus share rights from the capital increase authorized by the Company's Board of Directors on May 31, 2012 under "Flexible Dividend Programme" shareholder compensation scheme, in cases which such rights were sold to Repsol at a guaranteed fixed price in accordance with the conditions of the abovementioned capital increase (see Note 4 section d), amounted to €152 million are not included. These rights were recognized under "*Other payables*" on June 30, 2012.
(7) Corresponds mainly to:
   (a) Temporary financial investments: €1,084 million.
   (b) Exchange-rate hedging transactions: €141 million.
   (c) Interest-rate hedging transactions: €184 million.

Income and expenses, as well as other transactions, recorded during the first half of 2011 in respect of transactions with related parties were as follows:

| **EXPENSES AND INCOME:**<br>Thousands of euros | June 30, 2011 | | | |
|---|---|---|---|---|
| | Major shareholders | Directors and executives (1) | Persons, companies or entities within the Group (2) | Total |
| Finance expenses | 7,148 | - | 281 | 7,429 |
| Management or cooperation agreements | - | - | 1,258 | 1,258 |
| Transfer of R&D and licenses agreements | - | - | 47 | 47 |
| Operation leases (2) | 271 | - | 16,639 | 16,910 |
| Receipts from services (2) | 1,298 | - | 181,326 | 182,624 |
| Purchase of goods (finished or in progress) (2) (3) | 1,251,341 | - | 2,755,374 | 4,006,715 |
| Losses from the removal or sale of assets | - | - | 202 | 202 |
| Other expenses | 7,398 | - | 7,389 | 14,787 |
| **EXPENSES** | **1,267,456** | **-** | **2,962,516** | **4,229,972** |
| | | | | |
| Finance income (2) | 21,783 | 3 | 9,328 | 31,114 |
| Management or cooperation agreements | - | - | 2,135 | 2,135 |
| Transfer of R&D and licenses agreements | - | - | 522 | 522 |
| Dividends received | - | - | - | - |
| Operations leases | 2 | - | - | 2 |
| Services rendered (2) | 17,124 | - | 12,691 | 29,815 |
| Sales of goods (finished or in progress) (2) | 62,190 | - | 576,704 | 638,894 |
| Profit from the removal or sales of assets | - | - | - | - |
| Other income (2) | 17,134 | - | 39,908 | 57,042 |
| **INCOME** | **118,233** | **3** | **641,288** | **759,524** |

| OTHER TRANSACTIONS<br>Thousands of euros | June 30, 2011 | | | |
|---|---|---|---|---|
| | Major shareholders | Directors and executives (1) | Persons, companies or entities within the Group (2) | Total |
| Purchase of tangible, intangible or other assets | 47,216 | - | 117 | 47,333 |
| Finance agreements: credits and capital contributions (lender) (2) | 621 | 203 | 277,191 | 278,015 |
| Amortization or cancellation of credits and lease agreements (lessor) | - | - | - | - |
| Sale of tangible, intangible or other assets | 76,609 | - | 106 | 76,715 |
| Finance agreements: credits and capital contributions (borrower) (2) (4) | 662,772 | - | 5,774 | 668,546 |
| Amortization or cancellation of loans and lease agreements (lessee) | - | - | - | - |
| Guarantees given (2) | 114,744 | - | 605,688 | 720,432 |
| Guarantees received | 60,549 | - | 150 | 60,699 |
| Commitments acquired (5) | 558,193 | - | 19,415,211 | 19,973,404 |
| Commitments/guaranties cancelled | 14,393 | - | 666,562 | 680,955 |
| Dividends and other profit distributed (6) | 278,086 | 237 | - | 278,323 |
| Other transactions (7) | 2,632,113 | - | - | 2,632,113 |

(1) Included those transactions with Directors and Executives not included in note 12 on Compensations received by Directors and Executives, which correspond to the outstanding balance of the loans granted to senior management and the corresponding interest accrued, as well as dividends received from holding shares in the Group.
(2) Amounts corresponding to the transactions carried out with YPF, Repsol YPF Gas, and its group companies recognized under column *"Persons, companies or entities within the perimeter"* are: (i) Operating lease expenses: €6,636 thousand, (ii) Service-related expenses: €14,212 thousand, (iii) Purchase of goods: €22,749 thousand, (iv) Finance income: €1,054 thousand, (v) Revenue from services rendered: €2,186 thousand, (vi) Revenue from the sale of goods: €135,243 thousand, (vii) Other income: €1,460 thousand, (viii) Financing agreements as lender: €40,378 thousand, (ix) Financing agreements as borrower: €523 thousand, and (x) Guarantees and sureties provided by the Repsol Group backing companies consolidated using the equity method in the YPF Group amounting to €10,227 thousand. An additional €59,815 thousand corresponding to sales commitments net of firm purchase commitments were also recognized under Commitments with persons, companies or entities within the Group.
(3) These purchases included those made under the provisions of a crude oil purchase contract signed for an indeterminate period with the Pemex Group, which in 2011 were fixed at 85,000 barrels per day.
(4) This includes credit facilities for the maximum amount granted, totaling €462 million.
(5) Corresponds to firm purchase commitments outstanding, net of sales commitments.
(6) This includes 2010 interim dividends which were paid during January 2011.
(7) Corresponds mainly to:
    (a) Temporary financial investments: €1,337 million
    (b) Exchange-rate hedging transactions: €312 million.
    (c) Interest-rate hedging transactions: €705 million.

## (10) CONTINGENT LIABILITIES

### <u>Litigation</u>

The information herein updates the status of certain legal and arbitration proceedings having undergone relevant changes since the preparation of the 2011 consolidated financial statements, in which this information is included under Note 34 "Contingent liabilities and commitments".

Under the heding YPF and Repsol YPF Gas Intervention Decree and Expropriation Decree in Note 3, section *a) The Expropriation of the Repsol Group Shares in YPF, S.A. and Repsol YPF Gas, S.A.* is discussed events taking place in Argentina; the relevant information regarding the abovementioned proceedings included in the 2011 consolidated financial statements must be revised to include only the legal proceedings currently underway in Argentina and in the US naming Repsol as defendant (discussed in the following Sections A and B), excluding procedures in which YPF, S.A. or YPF subsidiaries are named as defendants.

**A) Argentina**

*Claims brought by ex YPF employees (Share Ownership Plan)*

A former employee of YPF before its privatization (1992) who was excluded from the National YPF employee share ownership plan (PPP its acronym in Spanish) set up by the Argentine Government has filed a claim in Bell Ville (Province of Cordoba, Argentina) against YPF, S.A. and Repsol to seek recognition of his status as a shareholder of YPF. In addition, the “Federation of Former Employees of YPF” has joined the proceedings acting on behalf of other former employees excluded from the PPP. Repsol acquired its ownership interest in the capital of YPF in 1999.

Pursuant to the plaintiff’s request, the Bell Ville Federal Court of First Instance initially granted a preliminary injunction (the *“Preliminary Injunction”*), ordering that any sale of shares of YPF or any other transaction involving the sale, assignment or transfer of shares of YPF, carried out either by Repsol or by YPF be suspended, unless the plaintiff and other beneficiaries of the PPP (organized in the Federation of Former Employees of YPF) are involved or participate in such transactions. YPF, S.A. and Repsol filed an appeal against this decision in the Cordoba Federal Court, requesting that the Preliminary Injunction be revoked. The Federal Court of First Instance allowed the appeal and suspended the effects of the Preliminary Injunction. In addition, in March 2011, the Federal Judge responsible for the Buenos Aires Administrative Disputes Court reduced the Preliminary Injuction to only 10% of the ownership interest held by Repsol in the capital of YPF. Accordingly, Repsol may freely dispose of its shares in YPF provided that Repsol continues directly or indirectly to own at least 10% of the share capital of YPF Under the jurisprudence of the Federal Supreme Court of Argentina (upholding numerous decisions of the relevant Courts of Appeals), neither company is likely to be held liable for claims of this nature related with the PPP. In accordance with Law 25,471, the National Government of Argentina assumed sole responsibility for the matter and for any compensation that may be payable to former employees of YPF, S.A. who were excluded from the PPP under the procedure established in it. On 21, July 2011, the judge of the First Instance upheld the claim of lack of jurisdiction made by of YPF S.A. and Repsol and ordered to transfer the case to the Federal Courts in the autonomous city of Buenos Aires. This decision was confirmed by the Appeals Chamber on December 15, 2011. The aforementioned Chamber overruled the decision handed down by the judge in the Court of First Instance of Bell Ville, limiting it to only 10% of the shares controlled by Repsol, S.A. claimed by the plaintiffs. The sentence is final. In April 2012, the dossier was filed at the Federal Court nº 12 of Appeals on Commercial Matters, overseen by Dr. Guillermo Rossi.

*Claim filed against Repsol and YPF by the Union of Consumers and Users*

The plaintiff claims the reimbursement of all the amounts the consumers of bottled LPG were allegedly charged in excess from 1993-2001, corresponding to a surcharge for said product. With respect to the period from 1993 to 1997, the claim is based on the fine imposed on YPF by the Secretariat of Industry and Commerce through its resolution of March 19, 1999. It should be noted that Repsol has never participated in the LPG market in Argentina and that the fine for abusing a dominant position was imposed on YPF. In addition, YPF, S.A. has alleged that charges are barred by the applicable statute of limitations. Hearings have commenced and are in process. The claim amounts to

Argentinean Ps.91 million (€17 million) for the 1993-1997 period. Adding interest, this amount would increase to Argentinean Ps.365 million (€66 million), to which the amount corresponding to the 1997-2001 period should be added, as well as accrued interest and expenses.

*Preliminary injunction filed by López, Osvaldo Federico and others against Repsol, S.A. (Dossier nª 4444)*

Through receipt of a significant event notification published by YPF, S.A. on April 26, 2012, Repsol became aware of the existence of a preliminary injunction of no innovation regarding which YPF received notification on April 20, 2012, filed before the Employment Court of First Instance of Rio Grande (Tierra de Fuego province). Under the aforementioned resolution, provided for the suspension of the exercise of the political and economic rights provided for in YPF S.A.'s bylaws with respect to the 45,215,888 ADSs, each of which represents one ordinary Class D share of YPF, S.A., sold by Repsol during March 2011, is no longer in effect. On May 30, 2012, Repsol spontaneously filed a motion to reverse the injunction.

Subsequently, through a relevant event published by YPF on June 1, 2012, Repsol became aware of a sentence handed down on May 14, 2012 which modified the abovementioned injunction substituting it with another according to which Repsol may not dispose of the funds it could receiveas payment from the expropriation of the shares of YPF, S.A. that may be awarded by the National Appraisal Tribunal. The ruling rendered the previous injunction null and void, and therefore, the shareholders are permitted to freely exercise their inherent rights. On June 18, 2012, Repsol filed a subsidy appeal against the modification of the abovementioned injunction.

On June 25, 2012, Repsol received notification of the filed claim.

**B) The United States of America**

*The Passaic River and Newark Bay lawsuit*

This section discusses certain environmental contingencies as well as the sale by Maxus Energy Corporation ("Maxus") of its former chemicals subsidiary, Diamond Shamrock Chemical Company ("Chemicals") to a subsidiary of Occidental Petroleum Corporation ("Occidental"). Maxus agreed to indemnify Chemicals and Occidental for certain liabilities relating to the business and activities of Chemicals prior to the September 4, 1986, Closing Date, including certain environmental liabilities relating to certain chemical plants and waste siposal sites used by Chemicals prior to the Closing Date. In 1995, YPF acquired Maxus, and in 1999, Repsol acquired YPF.

In December 2005, the Department of Environmental Protection (DEP) and the New Jersey Spill Compensation Fund sued Repsol YPF S.A. (currently denominated Repsol S.A.), YPF S.A., YPF Holdings Inc., CLH Holdings Inc., Tierra Solutions Inc., Maxus Energy Corporation, as well as Occidental Chemical Corporation. In August 2010, the lawsuit was extended to YPF International S.A. and Maxus International Energy Company. This is a claim for damages in connection with the contamination allegedly emanating from the former facility of Diamond Shamrock Chemical Company in Newark and allegedly contaminating the Passaic River, Newark Bay, and other nearby water bodies and properties (the Passaic River/Newark Bay litigation).

In February 2009, Maxus and Tierra included another 300 companies in the suit (including certain municipalities) as third parties since they are potentially liable.

The DEP did not quantify damages in its claims but it did:

a) maintain that the US$50 million (€37 million) cap on damages under New Jersey legislation should not be applied;
b) claim it had incurred approximately US$113 million (€85 million) in costs in the past in cleanup and removal work and that it is looking for additional compensation of between US$10 and US$20 million (between €7 and €15 million) to finance a study to assess damages to the natural resources (Natural Resources Damages Assesment); and
c) indicate that it is working on financial models outlining costs and other financial impacts, unknown at the time of the claims.

In October 2010, some of the defendants presented several motions to sever and stay, which would have had the effect of allowing the New Jersey DEP to take their case against the direct defendants. However, these motions were dismissed. Furthermore, other third parties presented motions to dismiss to be excluded from the proceedings. However, these motions were also dismissed in January 2011.

In May 2011, the court issued Case Management Order XVII ("CMO XVII"), which set forth the trial plans, dividing them in different trial tracks.

In accordance with the expected Trial Plan, the State and Occidental filed the corresponding motions (*"motions for summary judgment")*. On these motions, the Court ruled as follows: (i) Occidental is the *legal* successor of any liabilities incurred by the corporation previously known as Diamond Alkali Corporation, Diamond Shamrock Corporation and Diamond Shamrock Chemicals Company; (ii) the Court denied the State's motion, without prejudice, insofar as it sought a ruling that factual findings made in the *Aetna* litigation should be binding in this case on Occidental and Maxus based on the doctrine of *collateral estoppel*; (iii) the Court ruled that Tierra has *Spill Act* liability to the State based merely on its current ownership of the Lister Avenue site; and (iv) the Court ruled that Maxus has an obligation under the 1986 *Stock Purchase Agreement* to indemnify Occidental for any *Spill Act* liability arising from contaminants discharged from the Lister Avenue site.

Subsequently, and in accordance with the Trial Plan, the State and Occidental presented new motions for summary judgment against Maxus. On May 21, 2012, the Court ruled the following on these motions: (i) Maxus could not respond as successor to Old Diamond Shamrock. In its findings, the Court determined Occidental as the true successor; however, it is open to a subsequent analysis of succession, if the existence of punitive damages is determined later in the process; (ii) the terms of the Indemnity Agreement between Maxus and Occidental cannot be reinterpreted, and therefore, as the State of New Jersey is not a party in the contract such Agreement, it may not claim indemnity directly from Maxus; and (iii) Maxus may be considered Tierra's alter ego. In order to reach this conclusion, the Court pointed out that to all effects and purposes, Tierra is a corporate shell designed to avoid historical responsibility. Accordingly, since Maxus is considered Tierra's alter ego, the Court determined Maxus as equally responsible as Tierra under the Spill Act.

Based on the best available information at the date of these interim financial statements, and considering the estimated time remaining for conclusion of the lawsuit and the results of investigations and/or proof obtained, it is not possible to reasonably estimate the amount of the eventual liabilities arising from the lawsuit.

**C) Ecuador**

*Complaint filed by Ecuador TLC (Petrobras)*

On May 14, 2012, Ecuador TLC (Petrobras) filed with the International Centre for Dispute Resolution (ICDR), a claim against Repsol Ecuador S.A. (Ecuador Branch), Murphy Ecuador Ltd. (Amodaimi) and Canam Offshore Ltd, based on the following: (i) infringement of the Transportation Agreement between the plaintiff company and Murphy Ecuador Limited and Canam Offshore Ltd., for not comprising the total production; (ii) lack of compliance with payment of the tariff corresponding to said volume; and, (iii) disclousure of confidential information to Repsol related to the Oleoducto de Crudos Pesados pipeline. Ecuador TLC S.A. requested that the arbitrators: a) rule in its favor and order the payment in its favour of damages arising from the Transportation Agreement, including interest and attorney fees; b) grant emergency assistance considering that Murphy and Canam are jointly and severally responsible for all the amounts claimed by Ecuador TLC in this arbitration proceeding, and that Repsol is likewise fully responsible for all the amounts incurred by Canam according to the petition filed by Ecuador TLC in this arbitration proceeding; Murphy exercised its right to extend the Transportation Agreement deadline to December 2018, and is therefore liable for the related damages, including interest and attorney fees incurred from February 2012 through December 2018; and c) pay any additional general or specific expenses or assistance costs, in law and equity, to which Ecuador TLC is entitled. The claim would amount to approximately \$82 million (€65 million).

**D) Procedures initiated as a consequence of the expropriation of the Group's YPF shares**

On April 16, 2012, the Argentinean President announced the expropriation of 51% of YPF, S.A. Class D shares which were held by the Spanish company, Repsol. YPF, S.A. is Argentina's main oil company. Days later, the expropriation process was extended to 60% of Repsol´s participation in the Argentinean Repsol YPF Gas, S.A., a butane and propane gas distribution company. This shareholding represents 51% of the share capital of Repsol YPF Gas, S.A. In addition, on April 16, 2012 the President ordered the intervention of YPF, S.A. and expelled by force the Directors and Members of the Management Committee, while the government took control of company management (530 and 557 Decrees). At the same time, an exceptional Law for the expropriation of YPF, S.A. and Repsol YPF Gas, S.A. shares held by the Repsol Group was passed in record time (21 days). Thus, the Argentinean State, via the National Executive Power, declared the aforementioned shares a public utility and subject to expropriation, while also temporarily seizing all the inherent rights associated with the shares held by Repsol and subject to expropriation without waiting for any court sentence, and without compensation for the value of the affected shares.

Said "temporary occupation" and the subsequent expropriation only affect YPF, S.A. and no other oil companies in Argentina. Furthermore, Repsol, with its 57.4% shareholding, is the only damaged shareholder of YPF, S.A. The same applies to Repsol YPF Gas, S.A.

Under the Agreement for the Reciprocal Promotion and Protection of Investments signed by Spain and Argentina in 1991, the Argentinean State agrees to protect investments made by investors from the other country, Spain (article III - Section 1), and not disrupt the management, maintenance, and use of such investments through unjustified or discriminatory measures. The Agreement further guaranteed fair and equitable treatment of investments made by Spanish investors (IV-1), obliging the Argentinean State not to act in a discriminatory manner against Spanish investors in the case of nationalization or expropriation and to pay the expropriated investor adequate compensation in convertible currency (V) without any delay. In addition, the Agreement obliged the Argentinean State to concede the Spanish investors the most favorable regulations it had applied to other foreign investors (IV-2; VII).

In addition, the Argentinean Constitution establishes in article 17 that "*property is inviolable, and no inhabitant of the State can be deprived of it except by virtue of a sentence grounded in law. Expropriation for purposes of public utility must be qualified by law and compensated prior to the expropriation.* […]. *No armed body may make requisitions, or demand assistance of any kind*." Furthermore, article 20 states that "*Foreigners enjoy in the territory of the Nation all the civil rights of a citizen; they may engage in their industry, trade or profession, own, purchase or transfer real estate property* […]."

What is more, in 1993, for the purpose of attracting foreign investors at the time of the privatization of YPF, articles 7 and 28 of the Statutes of YPF, published in the prospectus of YPF filed at the US *Securities and Exchange Commission* (SEC), established the obligation for the Argentinean State, and concomitant right for shareholders, to repurchase shares at a price set in the Statutes in the event of renationalization. In addition, the repurchase would have to be verified by a takeover bid tendered by the Argentinean State for 100% of share capital. Should this not occur, the YPF Statutes establish that the Argentinean State's interest in YPF cannot be counted for purposes of reaching a quorum in the shareholder meetings of YPF and that no voting or economic rights will accrue to the Argentinean State either.

Repsol considers the abovementioned expropriation process illegitimate and intends to take all corresponding and pertinent legal steps to defend its rights and interests as well as obtain full compensation for the grave damages suffered.

The most relevant legal steps taken are as follows:

1. *Dispute under the jurisdiction of the Agreement for the Reciprocal Promotion and Protection of Investments.*

On May 10, 2012, Repsol formally notified the President of the Argentinean Republic of a dispute and the start of a negotiation period for reaching an out-of-court settlement regarding the Agreement on the Reciprocal Promotion and Protection of Investments which took effect on September 28, 1992. This written notification was followed by another on May 28, 2012 in which Repsol invited the Argentinean government to initiate the negotiations foreseen in the Agreement. These letters were answered by the Procurator of the Argentinean Treasury presenting formal pretexts. Following the negotiation period, which should last at least 6 months, if the parties do not reach an agreement, the ICSID could be involved to settle the issue.

Repsol considers that it has solid legal arguments for its claims to be recognized and to be compensated by the Argentinean State.

*2. Lawsuit claiming unconstitutionality of the intervention in YPF by the Argentinean government and the "temporary occupation" of rights over 51% of Class D YPF, S.A. shares held by Repsol.*

On June 1, 2012 Repsol filed a lawsuit before the Argentinean Courts requesting the declaration of unconstitutionality: (i) of articles 13 and 14 of Law Nº 26,741 (the "Expropriation Law") and any other regulation, resolution, act, investigation and/or action issued and/or performed under these regulations as being in clear violation of articles 14, 16 ,17, 18, and 28 of the Argentinean Constitution; (ii) of NEP Decree Nº 530/2012, NEP Decree Nº 532/2012, and NEP Decree Nº 732/2012 (taken together, the "Decrees"), and any other regulation, resolution, act, investigation and/or action issued and/or performed under the Decrees as standing in violation of articles 1, 14, 16, 17, 18, 28, 75, 99, and 109 of the Argentinean Constitution. Certain precautionary measures that were also requested were dismissed. The next stage with respect to this action is resolution of the conflict regarding competence, followed by the competent body ruling on the issue. With respect to the precautionary measures, the next stage is that the Appeals Chamber decide upon the appeal filed by Repsol against the first instance dismissal of the requested precautionary measures.

Repsol considers it has solid arguments for the Buenos Aires courts to rule the intervention and temporary occupation of YPF unconstitutional.

*3. "Class Action Complaint" filed before the New York Southern District Court regarding the Argentinean State's failure to comply with its obligation to launch a tender offer for YPF shares before taking control of the company.*

On May 15, 2012, Repsol and Texas Yale Capital Corp filed a *class action complaint* in the South District of New York (in defense of interests of holders of Class D YPF shares, excluding those shares subject to expropriation by the Argentinean State). The purpose of the lawsuit is: (i) to establish the obligation of the Argentinean State to launch a tender offer for Class D shares on the terms defined in the YPF Statutes, (ii) to declare that the shares seized without the tender offer are void of voting and economic rights; (iii) to order the Argentinean State to refrain from exercising voting or economic rights on the seized shares until it launches a tender offer; and (iv) that the Argentinean State indemnify the damages caused by failure to comply with its obligation to launch a tender offer (the damages claimed have not been quantified yet in the Proceedings).

This lawsuit against the Argentinean State is currently in the notification stage.

Repsol considers that it has solid arguments for the recognition of its corresponding rights to the YPF shares that have not been expropriated.

*4. Lawsuit filed with the New York Southern District Court for the failure of YPF to present form 13D as obliged by the Securities and Exchange Commission (SEC) due to intervention by the Argentinean State.*

On May 12, 2012 Repsol filed a lawsuit with the New York Southern District Court requesting that the Argentinean State be ordered to comply with its reporting requirements in conformity with section 13 (d) of the U.S. *Securities Exchange Act*. This section requires that whoever acquires direct or indirect control over more than 5% of a share class in a company listed in the USA, report certain information (through a 13D form) including the number of shares controlled; the source and amount of funds to be used for the acquisition of these shares; information on any contracts, agreements, or understandings with any third party regarding the shares of the company in question; and the business and governance plans the controlling entity has with respect to this company.

This lawsuit against the Argentinean State is currently in the notification stage.

**Guarantees**

With respect to the loan granted to Petersen by the Banco Santander in 2008, guaranteed by Repsol by virtue of the guarantee contract signed on June 6, 2008, the financial statements at June 30, 2012 recognize a provision of €54 million (Note 3 *section* a) *Expropriation of YPF, S.A. and Repsol YPF Gas, S.A. shares held by the Repsol Group*).

The Group has granted financial collateral guarantees, regulated by Royal Decree Law 5/2002, in the form of Gas Natural SDG shares owned by the Repsol Group, in connection with the financing received from various financial entities as described in the section on *Financial liabilities* in Note 6 and in Note 14 *Subsequent Events*.

## (11) AVERAGE HEADCOUNT

The average employee headcount at June 30, 2012 and 2011 was:

| | 06/30/2012 | 06/30/2011 |
|---|---|---|
| **AVERAGE HEADCOUNT** | | |
| Men | 20,925 | 33,717 |
| Women | 9,196 | 12,354 |
| | **30,121** | **46,071** |

The headcount at June 30, 2011 included employees from YPF and Repsol YPF Gas´s companies, which totaled 12,926 men and 3,626 women.

## (12) COMPENSATIONS

### A) Directors’ and executives’ compensation

During the first half of 2012, the Board of Directors has being integrated by fifteen directors (two Executive Directors, five Institutional External Directors and eight Independent External Directors). A total of ten people were members of the Group's Executive Committee at some point during the same period. For reporting purposes, in this section Repsol deems "executive personnel" to be the members of the Executive Committee. This consideration, made purely for reporting purposes, herein, neither substitutes nor comprises a benchmark for interpreting other senior management pay concepts applicable to the Company under prevailing legislation (such as Royal Decree 1382/1985), nor does it have the effect of creating, recognizing, amending or extinguishing any existing legal or contractual rights or obligations.

The following is a breakdown of compensation paid during the first six months of 2012 to Board Members and executives who at some point, belonged to the Group's Executive Committee. For comparative purposes 2011 data is included, with similar criteria.

**DIRECTORS:**

| **Compensation:** | Thousands of euros **06/30/2012** | **06/30/2011** |
|---|---|---|
| Fixed compensation | 1,936 | 1,982 |
| Variable compensation (a) | 1,538 | 5,941 |
| Bylaw stipulated remunerations | 2,406 | 2,509 |
| Others (b) | 29 | 28 |
| **TOTAL** | **5,909** | **10,460** |

**EXECUTIVES: (c)**

| | Thousands of euros **06/30/2012** | **06/30/2011** |
|---|---|---|
| Total compensation received by executives (a) (b) | 5,669 | 11,394 |

(a) The variable compensation corresponding to the first six months of 2011 includes a one-off bonus associated to 2010 profits, which was accrued and paid in full in the first half of 2011.

(b) In-kind benefits and contributions to life insurance and pension plans include the corresponding tax payments on account.

(c) The composition and number of members of the Executive Committee varied between 2011 and 2012.

In the first half of 2012 the accrued cost of the retirement, disability, and death insurance policies for Board members, including the corresponding tax payments on account, amounts to €184 thousand (€159 thousand in the first half of the previous year); and the contributions to pension plans and long-service bonuses amounts to €1,347 thousand (€1,325 thousand for the same period in the previous year).

The contributions made by the Group in the first half of 2012 to the executives' pension plans, the contributions to executives' prevision plans, and insurance policy premiums covering disability and death (in this case including the corresponding tax payments on account) totaled €977 thousand (€1,012 thousand in the first half of the previous year).

**B) Share-based payments plans**

The following is an update during the first six months of 2012 of Repsol, S.A.'s share-based payment scheme approved at the Ordinary General Meeting, and included in the 2011 consolidated financial statements:

i.) "*Plan for Delivery of Shares to Beneficiaries of the Pluri-Annual Remuneration Programs*"

Repsol has a "*Plan for Delivery of Shares to Beneficiaries of the Pluri-Annual Remuneration Program*." On May 31, 2012, 187 employees and executives took part in the Second Cycle of the Plan (2012-2015), having acquired a total of 294,689 shares representing 0.023% of the share capital recognized at June 30, 2012, with an average price of €12.2640 per share. The Group is committed to delivering 98,161 shares (representative of 0.008% of share capital) to those employees who fulfill the Plan requirements after the three-year vesting period ends.

During this Second Cycle, the current Board members had acquired a total of 131,395 shares. Considering the total number of shares acquired during the First Cycle, which amounted to 79,611 shares, Repsol would be committed to delivering 26,534 shares once the First Cycle's vesting period ends, and 43,795 shares when the second would be finished. This commitment is subject to the compliance with the remaining Plan requirements.

At June 30, 2012, has been recognized expenses totaling €0.24 million under "*Personnel expenses*" with a counterbalancing entry under "*Retained earnings and other reserves*" in equity related to the First and Second Cycles.

ii.) "*2011-2012 Share Acquisition Plan"*

During the first half of 2012, and in accordance with in the information included in Note 4, section *d) "Equity - 2. Treasury shares*" the Group has purchased 264,398 treasury shares for €4.4 million, to be delivered to Group employees. These shares represented 0.021% of the shares issued by Repsol, S.A. at June 30, 2012.

The shares to be delivered under both schemes, i) and ii), may consist of directly or indirectly held treasury shares of Repsol, new issuance shares or shares acquired from third parties under agreements entered into to cover the delivery commitments assumed.

At the Ordinary General Shareholders Meeting held on May 31, 2012, the 2013-2015 Share Acquisition Plan was approved to cover Repsol Group management and other employees in Spain who voluntarily choose to participate. According to the Plan, beneficiaries may receive part of the compensation corresponding to all or any of 2013, 2014, and 2015 in Repsol shares, with a yearly limit equivalent to a maximum equivalent monetary amount established by tax legislation prevailing each of the years and for each territory, which is not subject to personal income tax withholdings. These shares will be valued at the closing price of the Repsol shares on the continuous market (SIBE) of the Spanish stock exchanges on the date they are delivered to the beneficiaries.

## (13) OTHER INFORMATION

On February 28, 2012, Repsol, S.A. and Petróleos Mexicanos ("Pemex") communicated their respective Boards' approval of a strategic industrial alliance, which will allow to generate profits in the short and medium term and achieve positive synergies for both companies, and is to last 10 years. The Alliance covers the Upstream and LNG business areas in America, and the Downstream business area in America, Spain, and Portugal, as well as cooperation in joint training programs. Repsol or Pemex will respectively evaluate the business and cooperation opportunities that arise in the course of the Alliance. The constitutional and legal framework regulating the hydrocarbons sector in Mexico allows Pemex to count on Repsol as an ally, as per the Alliance, for evaluation and promotion of business opportunities that may be of mutual interest.

Pemex has ratified its commitment to stability and will not increase its interest in Repsol beyond 10% or reduce it to below 5%. Notwithstanding the above, after one year has elapsed from the Alliance signature date, Pemex can reduce its interest to below 5%. Should this occur, Repsol could dissolve the Alliance.

## (14) SUBSEQUENT EVENTS

Repsol has reached an agreement with a consortium of Chilean investors for the sale of 100% of its subsidiary Repsol Butano Chile subsidiary for an approximate amount of $540 million. Aside from other financial assets, Repsol Butano Chile owns a 45% stake in Lipigas, an LPG commercialization company in the Chilean market. The finalization of this transaction is contingent upon fulfilling the usual conditions for this type of transaction. At June 30, 2012, the assets and liabilities of companies that are going to be sold were classified under *Non-current assets and liabilities held for sale* in the consolidated balance sheet (See Note 4.c).

A €250 million financing transaction via derivative instruments, maturing in 12 months, was implemented in July 2012. This transaction is independent of the two that were closed in June 2012, described in Note 6, section *(b) Financial Liabilities*. This third transaction is also accompanied by financial collateral guarantees regulated by Royal Decree Law 5/2005. Thus, at the date of preparation of the accompanying interim condensed consolidated financial statements the aforementioned guarantee is in the form of 104,762,387 Gas Natural SDG, S.A. pledged shares owned by Repsol, corresponding to 10.47% of said entity's share capital. The abovementioned transactions do not imply transfer of ownership with respect to the Gas Natural SDG, S.A. shares, retaining Repsol the inherent voting and economic rights.

## (15) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These interim condensed consolidated financial statements are prepared on the basis of IFRSs, as endorsed by the European Union, and Article 12 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group may not conform with other generally accepted accounting principles.

## APPENDIX I: CHANGES IN THE SCOPE OF CONSOLIDATION

*a) Business combinations, other acquisitions and acquisitions of interest in subsidiaries, joint ventures and/or associates.*

| | | | Cost of the business combination (net) (millions of euros) | | | |
|---|---|---|---|---|---|---|
| **Name of the entity (or business activity) acquired/absorbed** | **Type of transaction** | **Transaction close date** | **Consideration (net) paid + other costs directly atributable to the business combination** | **Fais value of the equity instruments issued to acquire the acquiree** | **% of voting rights acquired (2)** | **% of total voting rights acquired in the entity post - acquisition** |
| Capital Telecom Honduras, S.A. (1) | Acquisition | feb-12 | | | 100.0% | 100.0% |
| Distribuidora de Electricidad del Norte, S.A. (1) | Acquisition | feb-12 | 2 | - | 11.4% | 83.7% |
| Distribuidora de Electricidad del Sur, S.A. (1) | Acquisition | feb-12 | 0 | - | 10.0% | 83.7% |
| Energías Especiales de Extremadura, S.A. (1) | Acquisition | mar-12 | 2 | - | 20.6% | 99.0% |
| U.F. Telecomunicación El Salvador, S.A. de C.V. (1) | Acquisition | mar-12 | - | - | 100.0% | 100.0% |
| Fenosa Wind, S.L. (1) | Acquisition | apr-12 | - | - | 15.0% | 100.0% |
| Repsol Comercial de Productos Petrólíferos S.A. | Increase shareholding | may-12 | - | - | 0.0% | 99.8% |
| Repsol Trading USA Corporation | Incorporation | jun-12 | - | - | 100.0% | 100.0% |
| Windplus, S.A. | Acquisition | jun-12 | 4 | - | 31.0% | 31.0% |

(1) Investments held through Gas Natural Fenosa.
(2) Corresponds to the equity shareholding in the acquired company.

*b) Reduction in interests in subsidiaries, joint ventures and/or associates and other similar transactions (1)*

| Name of the entity (or business activity) sold, splitted or retired | Type of transaction | Effective date of the operation | % of voting rights sold or retired | % of voting rights acquired in the entity post-acquisition | Income / Loss generated (Millions of euros) (3) |
|---|---|---|---|---|---|
| Transnatural, SRL de CV (2) | Disposal | jan-12 | 50.00% | - | (1) |
| GEM Suministro de Gas, 3, S.L (2) | Disposal | feb-12 | 100.00% | - | 6 |
| GEM Suministro de Gas SUR 3, S.L (2) | Disposal | feb-12 | 100.00% | - | - |
| Eólica de Cordales, S.L.U. (2) | Disposal | apr-12 | 100.00% | - | - |
| Eólica de Cordales Bis, S.L.U. (2) | Disposal | apr-12 | 100.00% | - | - |
| Gas Natural International, Ltd. (2) | Liquidation | apr-12 | 100.00% | - | - |
| Eólicos Singulares 2005, S.A. (2) | Liquidation | may-12 | 49.00% | - | - |
| Andaluza de Energía Solar Cuarta, S.L. (2) | Liquidation | jun-12 | 76.00% | - | - |
| Zao Eurotek-Yamal | Disposal | may-12 | 100.00% | - | - |
| OOO Eurotek-ND | Disposal | may-12 | 100.00% | - | - |

(1) In this section is not included YPF or Repsol YPF Gas or the companies of their respective groups, which are no longer considered group companies (Note 3 *Expropriation of Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.*).
(2) Investments held through Gas Natural.
(3) Corresponds to recognized pre-tax profit.

# Repsol, S.A. and Investees composing the Repsol Group

**Interim management report for the six-month period ended 30 June 2012**

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.*

# INDEX

# GENERAL AND ECONOMIC-FINANCIAL INFORMATION

## MACROECONOMIC ENVIRONMENT

Since the end of 2011, the world economy has experienced a slowdown in growth that for the most part has been linked to problems caused by the debt crisis in the Euro Zone. The financial costs of restructuring Greek debt and the threat of Greece leaving the single currency have deepened the Euro Zone crisis, putting further pressure on Spanish and Italian bond yields that is unsustainable in the long-term and pushing the region into recession for the second time in four years.

With the resulting fall in external demand and loss of global financial stability, this slide back into recession has had a negative effect on prospects for growth in other parts of the world. Over the course of 2012, growth rates have slowed and there has been a significant deterioration in consumer and business confidence indicators in countries from the USA to China.

The threat to global economic recovery has prompted major economies to implement new fiscal and monetary stimulus measures to encourage growth, where it has been possible to do so. The countries of the European Union have also been forced to accelerate their political, economic, banking and fiscal integration, surrendering elements of their sovereignty in order to contain systemic risk. New treaties, such as the Treaty Establishing the European Stability Mechanism and the Fiscal Compact, have emerged to complement the European institutional framework.

The Spanish economy played a central role in the Euro Zone crisis in the first half of the year. Heightened tensions in the markets – which had been very intense since the summer of 2011- and its direct implications for access to external sources of finance for public and private institutions increased the need for action by European authorities, given the possible contagion of the crisis to other member states.

In terms of activity, in the first quarter of 2012 Spanish GDP bore witness to the slowdown in Europe and the loss of confidence among foreign investors, falling 0.3% for the second consecutive quarter. The employment market continued to weaken, with the social security system losing 500,000 contributors with respect to the first half of 2011. Meanwhile, the loss of dynamism in economic activity and its repercussions on tax revenues, together with the increase in the cost of sovereign debt, could see further adjustments to the accounts of the Government Departments to bring the budget deficit down as much as possible to the target for this year (-5.3% of GDP), but reducing the capacity for growth in the short and medium term.

In this regard, on 28 and 29 June the European Council of Heads of State and Government put a growth pact on the table, with plans for investment and short-term measures to reduce pressure on Spain and Italy. This Council authorised: (i) the direct recapitalisation of the banking sector using European funds; (ii) the absence of priority in the receipt of assistance channelled through the State; and (iii) the purchase by European stability mechanisms of government debt of countries whose risk premium is under pressure.

One of the positive consequences of the economic slowdown has been a reduction in inflationary pressures. Prices for raw materials, the changes in which are related to world economic growth, fell together with other risky investments. The CRB Raw Materials Index shows a negative trend that began in May 2011, and continued in the first half of 2012. Despite this fall, however, prices of raw materials remain at historic highs, near the all-time highs seen in 2008.

The European crisis has had important repercussions for countries such as the United States and China, which are key to global production of, and demand for, commodities. To the list of problems currently experienced by the United States as it attempts to reduce unemployment can be added the effect of the uncertainty created by the European crisis on US consumer confidence. In China, lower growth expectations can be explained to a large extent by a fall in its trade surplus as a result of a fall in exports, in particular to Europe.

Movements in oil prices in the first half of 2012 were marked by two clear trends. The first of these was an upward profile during the first two months of the year, which saw the price of Brent crude rise from $109 per barrel at the end of 2011 to $129.93 at the beginning of March. This was followed by a sharp correction, with the Price of Brent crude falling to a low of $88.95 on 25 June. This abrupt fall of more than $40 from the highest to the lowest price for the year (-32%) was closely related to the sharp increase in aversion to risk and a perception of a more pronounced slowdown in global economic activity. Nevertheless, at the end of June the price of Brent crude bucked this downward trend and recovered some of its losses for the quarter, rising to $94.41, following the meeting of European leaders and as a consequence of other geopolitical factors, such as the worsening situation in Iran and a strike by oil workers in the North Sea. Since then, oil prices have been on a downward trend due to geopolitical complications in Iran and Syria and an expectation of new monetary stimuli in the USA and China. In July, oil prices have recovered half of the losses recorded in the second quarter, rising to around $106 per barrel at the date of this report.

## 2012-2016 STRATEGIC PLAN

Repsol has consolidated in the last few years its growth strategy which has enabled to develop new business areas, diversify its assets portfolio as well as incorporate key projects that currently support its positioning in the global energy sector.

After the publication of the Law by which shares held by Repsol Group in YPF, S.A. and in Repsol YPF Gas, S.A. are subject to expropriation (see section "Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A."*)* Repsol presented on 29 May 2012 through the corresponding "relevant event", the 2012-2016 Strategic Plan of the Repsol Group, based on the following strategy lines:

**Strategy lines**

The strategy of Repsol Group is based on four pillars:

1) Growth of Upstream area
2) Maximize return on capital Downstream and LNG (Liquefied Natural Gas)
3) Financial strength
4) Competitive shareholder compensation

1) Growth of Upstream area (Exploration and Production)

   Exploration and Production area is the pillar of Repsol growth engine, with investments focused on the exploration and on 10 key projects, including some of the biggest exploratory successes obtained by Repsol in the recent years.

Repsol will focus its activity in these 10 projects in Brazil, USA, Russia, Spain, Venezuela, Peru, Bolivia and Algeria.

2) Maximize return on capital Downstream and LNG

   The Downstream area (Refining, Marketing, Chemistry, and LPG) has become a cash generating business, following the completion, now operative, of enlargement of the refineries of Cartagena and Petronor in Bilbao which increased both the conversion capacity and the Repsol operative efficiency.

   In addition, Repsol liquefied natural gas (LNG) business will take advantage of the integration across the entire value chain to maximize the profitability of Repsol portfolio in the Atlantic and Pacific basins.

3) Financial strength

   Repsol financial position and the divestments of non-core assets will enable the company to self-finance the investments envisaged in the 2012-2016 Strategic Plan.

4) Competitive shareholder compensation

   Last of Repsol strategic pillars is to establish a competitive shareholder compensation policy.

## NEW ORGANIZATIONAL STRUCTURE

Also on 29 May 2012, the new organizational structure was presented with the aim of boosting the development of the 2012-2016 Strategic Plan with the focus on their vision for the future. The Board of Directors of Repsol approved the proposal of the President for a new organizational structure which reinforces both the corporate area and the business area.

To facilitate growth of the businesses, Repsol has concentrated its management in the Business General Direction (COO). In order to promote the active development of the Company’s Strategy, based on the anticipation of opportunities, business management and the growth of technology as a transformational engine the company has created a General Direction for Strategy and Control.

## EXPROPRIATION OF THE REPSOL GROUP SHARES IN YPF, S.A. AND REPSOL YPF GAS, S.A.

On 16 April, the government of Argentina began proceedings for the expropriation of YPF to Repsol Group. That day, it decreed the intervention of the company, appointing an intervenor with all of the powers of its Board of Directors. This intervenor immediately assumed control of management.

After a fast passage through Congress, Law 26,741, which declares the 51% of Class D shares in YPF, S.A. and the 51% of shares in Repsol YPF Gas, S.A. owned by Repsol Group of public utility and subject to expropriation, entered into force on 7 May. Since that date, the Argentinean government has had the authority to exercise the rights conferred by the shares to be expropriated without any prior compensation.

From that point onwards, the appropriate expropriation process should be set in motion. In accordance with Argentine Expropriation Law, a fair and adequate compensation should be established –if necessary by a court ruling – and paid prior to the occupation and acquisition of the expropriated assets.

Repsol considers the expropriation to be clearly illicit and gravely discriminatory (it only affects one Argentinean oil company and one of its shareholders, Repsol) and it also views that the entire transaction blatantly fails to comply with Argentina's obligations in the privatization process of YPF.

For this reason, Repsol is determined to exercise all of its rights and courses of action open to it to preserve the value of all of its assets and the interests of its shareholders. Specifically, Repsol has begun legal proceedings (i) based on the "Agreement between the Argentinean Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection of Investments", (ii) based on the unconstitutional nature of the YPF intervention, and the temporary occupation of shares subject to expropriation; and (iii) based on the Argentinean Government's lack of performance of the obligation to launch a Tender Offer for the YPF shares prior to taking control over the company.

Repsol is confident that such a flagrant violation of the most fundamental principles of legal certainty and respect for business done in good faith will not be ignored by the international investment community, and will receive the appropriate response from the courts and bodies for the settlement of international disputes.

The financial impact of these events is reflected in the financial statements of the Group for the first half of 2012. Repsol has lost control of the management of YPF and Repsol YPF Gas; therefore, it must deconsolidate these shareholdings, effective as at 16 April. This will involve:

a) Derecognise all relevant assets, liabilities, and minority interests, as well as translation differences as appropriate.

   The net amount of this derecognition is €4,779 million, of which, €4,720 million relates to YPF, and the others to Repsol YPF Gas. This amount includes €605 million regarding to accumulated translation differences in net equity in the Group's ownership interest in YPF and Repsol YPF Gas generated until loss of control.

b) Revalue other assets and liabilities related to investments in YPF which have been affected by the change in control and the expropriation process. This includes the loans and guarantees granted for the Petersen Group's financing of the acquisition of its ownership interest in YPF.

   The net value derecognised from the Repsol balance sheet as a result of the expropriation stands at €1,402 million, and is equal to the provision registered for the loan granted by Repsol that is not covered by a pledge of shares (5.38% of share capital of YPF). Meanwhile, provisions totalling €54 million have been recognised to cover the maximum liabilities undertaken by Repsol, as guarantor of Petersen, less the value of the shares pledged as a counter-guarantee (0.56% of share capital of YPF). The Group does not consider that these events will lead to other consequences for Repsol arising from the execution of the contracts with the Petersen Group.

c) Recognise the shareholding of Repsol Group in YPF and Repsol YPF Gas as a financial investment (shares), from the shares subject to expropriation (which still belong to the Group) and the remaining shares owned by Repsol Group

(51% subject to expropriation of both companies and 6.43% and 33.997% with respect to YPF and Repsol YPF Gas, respectively, in other shares at the end of the period).

These shares have been recognised for accounting purposes according to their fair or realisable value.

In the case of YPF shares not subject to expropriation, fair value will be the official price at which these shares are traded in the market.

In the case of YPF shares that are subject to expropriation and cannot be traded in the share market, the fair value will be the value that the Group can expect to recover as a result of the expropriation process. This will require an estimate of the compensation the Argentinean Government will pay Repsol.

The price or compensation paid for the expropriation of the shares must be set as a function of the market value of the expropriated shareholding prior to expropriation, also considering the right of Repsol to apply the judgment specifically provided for in the YPF bylaws (articles 7 and 28) for the valuation of shares in the event of a change in control. In view of its legal force and objectivity, this provision constitutes a clear point of reference for estimating the minimum level of compensation to be received by Repsol. Using this reference, 100% of YPF would be valued in the worst-case scenario at not less than $18,300 million.

However, the Group must bear in mind the risks and uncertainties inherent in valuation, which are inevitable when estimates must be made, for accounting purposes, regarding future events, particularly when such events are beyond Repsol's control. Consequently, the company has applied prudent criteria when recognizing the shares subject to expropriation, to avoid a situation in which a higher valuation would require initial recognition of net profit from the expropriation process, which at this time is still of a contingent nature.

For the reasons stated above, Repsol Group’s shares in YPF (51% subject to expropriation and 6.43% in other shares) have been initially valued at €5,623 million. Its shares in Repsol YPF Gas have been valued at €50 million.

Any amendment to the hypotheses considered reasonable in jurisdictional processes and the valuation of the rights expropriated could result in positive or negative changes in the amount which the shares in YPF, S.A. and Repsol YPF Gas, S.A. have been recognized and, therefore, could have an impact on the Group’s financial statements.

d) Registration of a deferred tax asset amounting to €524 million from tax impacts of the aforementioned operations.

The net effect recognized in the Group's income statement as a result of all the effects in connection with the expropriation process, amounts to a €38 million loss net of tax, recognized under "Net income after tax for the period from discontinued operations."

In accordance with International Financial Reporting Standards (IFRS), YPF and Repsol YPF Gas activities are considered discontinued operations and the results arising from these activities until the loss of control by Repsol, as well as results arising from the valuation of assets and liabilities related to the expropriation, have been recognised in discontinued operations sections of the income statement of Repsol as at 30 June 2012 and 2011.

The table below contains certain aggregates of Repsol Group from the financial statements of 30 June 2011 which, pursuant to IFRS 5, “Non-current assets held for sale and discontinued operations” must have been restated to classify operations related to the expropriation at discontinued activities:

| | (€ million) | |
|---|---|---|
| **Repsol Group (*according to IFRS*)** | Consolidated Group (restated) 30/06/2011 | Consolidated Group Stated in 2011 30/06/2011 |
| EBITDA (*) | 3,089 | 4,473 |
| Operating income (*) | 2,109 | 2,722 |
| Consolidated net income for the interim period from discontinued operations | 371 | -- |

(*) Related to continued operations

Note 3.a) of interim condensed consolidated financial statements *Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.* contain additional information on the expropriation process in YPF and Repsol YPF Gas.

As at 31 December 2011, YPF had proven reserves of 1,013 million barrels of oil equivalent (585 million barrels of liquids and 2,399 billion cubic feet of gas), which represented 46% of proven reserves of the consolidated Group at this date. Since the loss of control by Repsol, said volumes do not constitute part of Repsol Group's proven reserves. Meanwhile, YPF production reached 181 million barrels of oil equivalent (100 million barrels of liquids and 453 billion cubic feet of natural gas) in 2011, which represented 62% of total production of the Group that year.

## RESULTS

Operating income from continued operations in the first half of 2012 stood at €1,966 million, which represents a decrease of 6.8% on the first half of 2011 (€2,109 million). This difference is mainly due to the impact of the prices of the crude oil and the oil products on the inventories of the downstream unit which enabled earnings to be obtained in 2011 that have not continued in 2012. Without taking into account this effect, all the divisions show better results in 2012, specially Upstream and LNG, affected fundamentally by the resumption of the activity in Lybia and the improvement of volumes and margins, respectively, managing to compensate the decrease of the result associated with the fall of volumes and margins of the chemical business and, in minor measure, the sales in the marketing Europe business as consequence of the economic crisis.

Nevertheless, a notable improvement of the EBITDA for continued operations has taken place, which it reached €3,331 million in the first half of 2012, opposite to €3,089 million in the first half of 2011.

Repsol net income from continued operations attributable to the parent in the first half of 2012 ascended to €903 million, 14.6% lower than the amounted in the same period of 2011.

The total net income attributable to the parent in the first half of 2012 amounted to €1,036 million, 22.9% lower than the first half of 2011. This result includes the income attributed to the discontinued operations, derived from YPF's operations and related investments, which was €133 million in the first half of 2012, opposite to €287 million in the first half of 2011.

The results of the Repsol Group during the first six months of 2012 and 2011 were as follows:

| *Figures in million euros* | **JANUARY-JUNE** | | |
|---|---|---|---|
| | **2012** | **2011 (*)** | **% variation** |
| Upstream | 1,144 | 806 | 41.9 |
| LNG | 237 | 168 | 41.1 |
| Downstream | 277 | 744 | (62.8) |
| Gas Natural Fenosa | 475 | 512 | (7.2) |
| Corporate | (167) | (121) | (38.0) |
| **Operating income** | **1,966** | **2,109** | **(6.8)** |
| Financial result | (433) | (374) | (15.8) |
| Share of results of companies accounted for using the equity method-net of tax | 66 | 33 | 100.0 |
| **Net income before tax** | **1,599** | **1,768** | **(9.6)** |
| Income tax | (674) | (645) | (4.5) |
| **Net income for the period from continuing operations** | **925** | **1,123** | **(17.6)** |
| Net income for the period from continuing operations attributable to minority interests | (22) | (66) | 66.7 |
| **Net income for the period from continuing operations attributable to the parent** | **903** | **1,057** | **(14.6)** |
| Net income for the period from discontinued operations after taxes | 242 | 371 | (34.8) |
| Net income for the period from discontinued operations attributable to minority interests | (109) | (84) | (29.8) |
| **Net income for the period from discontinued operations attributable to the parent** | **133** | **287** | **(53.7)** |
| **TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT** | **1,036** | **1,344** | **(22.9)** |

(*) It includes the necessary modifications with respect to the results corresponding to the period of six months finished on June 30, 2011 included in the interim management report, in relation with the expropriation process of YPF and Repsol YPF Gas, in accordance with the contents of the caption “Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A."

The main year-on-year differences are shown bellow:

## UPSTREAM

Operating income in the first six months of 2012 totaled €1,144 million, 42% more than in the same year-ago quarter, due to greater production volumes, particularly in liquids, principally for the resumption of the activity in Lybia after the suspension between March and October 2011, higher oil and gas realization prices in the period (better performance than the international Brent and HH benchmarks), and the positive effect of the revaluation of the dollar against the euro.

Production in the first half of 2012 (322 Kboepd) was 4% higher than in the same period in 2011 (310 Kboepd) thanks mainly to the resumption of production in Libya after the suspension in March 2011 and increased production in the United States as a result of the development wells drilled after the drilling moratorium was lifted.

In the first half of the year, operating investments in this area amounted to 1,109 M€. Investments in development represented 54% of the total and were mainly spent in the USA (36%), Trinidad and Tobago (15%), Brazil (12%), Venezuela (10%), Bolivia (9%) and Peru (9%). Investments in exploration accounted for 24% of the total and were mainly made in the USA (43%), Brazil (14%), Peru (8%) and Sierra Leona (7%).

## LNG

Operating income totalled €237 million in the first half of 2012, representing a substantial increase on the €168 million posted for the same period in 2011.

This increase is mainly due to higher LNG marketing margins and for the positive effect of the revaluation of the dollar.

In the first six months, operating investments in the LNG area stood at €17 million. In 2011 investments reached €7 million.

## DOWNSTREAM

Operating income for the first half of 2012 was €227 million, down 63% on the €744 million for the same period in 2011. The most outstanding factors of these results are the impact of the evolution of the prices of the crude oil and the oil products on the inventories, the lower margins and volumes in the chemical business and the lower Marketing Europe sales volume, as consequence of the economic crisis.

Operating investments in the Downstream during the first half of the year amounted to €295 million against €652 million than in the equivalent year-ago, mainly as a result of the completion of the enlargement and conversion projects in Cartagena refinery and the fuel oil reduction unit in Bilbao.

## GAS NATURAL FENOSA

Operating income for the first half of 2012 was €475 million, compared with €512 million for the same period the previous year. Isolating the gain for the sale of points of gas supply in Madrid registered in 2011, this growth was mainly driven by wider marketing margins for wholesale gas sales and at Unión Fenosa Gas which partially offset the impact of the earnings performance of the power business following the enactment of Royal Decree-Law 13/2012 (implementing measures to correct the tariff deficit) and the effect of the divestments made in 2011 (gas distribution assets in Madrid and power distribution in Guatemala).

The operating investments accumulated during the semester have been €185 million. Material investments were mainly earmarked for Gas and Power Distribution activities in Spain and in Latin America.

## CORPORATE

This section includes corporate operating costs and activities not attributable to operating areas, as well as inter-segment consolidation adjustments. A loss of €167 million was posted in 2012, against the €121 million in net expenses incurred in 2011.

## FINANCIAL RESULT

Financial expenses for the first half of 2012 were €433 million, representing an increase in net expenditure of €59 million compared with the same period in the previous year, owed principally to the increase of the interest expenses.

The principal concepts included are the following:

| *Figures in million euros* | JANUARY-JUNE | |
|---|---|---|
| | **2012** | **2011** |
| Net interest expenses (including preference shares) | (325) | (260) |
| Hedging positions (income/expense) | 8 | (24) |
| Update of provisions | (30) | (45) |
| Capitalised interests | 36 | 67 |
| Other financial income/expenses | (122) | (112) |
| **Total** | **(433)** | **(374)** |

## INCOME TAX

The effective tax rate for the first half of 2012 applicable to continuing operations was estimated at 44%, which is over the estimate for the same period of the previous year (37.2%); this is mainly due to increased profits in areas with higher tax burdens, such as Upstream businesses, and especially the Libyan operation.

## INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations recognizes the results of consolidating the operations of YPF, Repsol YPF Gas, and their Group companies up to the moment of losing control (see section "Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A." and the note 3 of the interim condensed consolidated financial statements corresponding to the first half of 2012) and the effects registered by the valuation of assets and liabilities related to the expropriation process. The above mentioned result has amounted to €133 million in the first half of 2012 and to €287 million in the first half of 2011.

## FINANCIAL OVERVIEW

At the end of the first half of 2012, the net financial debt of the consolidated Group stood at €9,960 million, down from €11,663 million at the end of 2011. The net debt figure for the end of December 2011 included debts of YPF and Repsol YPF Gas totalling €1,939 million. Excluding these debts, total net debt of the Group as at said date would have been €9,724 million; thus, the net debt of the consolidated Group as at 30 June 2012 would have been €236 million higher than six months earlier. Debt levels during the period were affected by the loan of €1,402 million extended to the Petersen group for the acquisition of YPF (see *Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas* and Note 3 to the interim condensed consolidated financial statements for the first half of 2012).

Consolidated Group net debt to capital employed ratio stood at 24.5% as of first half 2012, 32.4% including preference shares. Excluding capital employed from discontinued operations these ratios would have stood at 28.6% and 37.9%, respectively.

The variation of the Consolidated Group's net debt during the first half of 2012 as well as the causes thereof are as follows:

*Figures in million euros*

| | |
|---|---|
| **Net debt at the beginning of the period** | **11,663** |
| Elimination of YPF and RYPF Gas net debt at 31.12.11 | (1,939) |
| **Net debt at 31.12.2011 without YPF and RYPF Gas** | **9,724** |
| EBITDA | (3,331) |
| Variation in trade working capital | 139 |
| Investments (1) | 1,854 |
| Divestments (1) | (200) |
| Dividends paid | 685 |
| Treasury stock transactions | (1,313) |
| Currency translation differences | (109) |
| Taxes paid | 637 |
| Interest and other movements | 508 |
| Associated effects to Petersen's loans(2) | 1,366 |
| **Net debt at 30.06.2012** | **9,960** |

(1) In the period January-June 2012, there are financial investments amounting to €9 million as well as financial divestments amounting to €195 million that do not appear in this table.

(2) Includes a €1,402 million provision.

EBITDA amounted to €3,331 million and made it possible to cover investments, the slight increase on working capital, tax paid and interest of the period.

On 30 June 2012, Repsol financial net debt excluding Gas Natural Fenosa amounted to €5,170 million. This figure is only €334 million higher in comparison to debt reported at year-end 2011 excluding Gas Natural Fenosa and YPF despite it includes the impact of the provision regarding to the loan granted to Petersen Group. Including preference shares, financial net debt as of 30 June 2012 amounted to €8,203 million, €367 million higher than 2011 year-end figure, taking into account this standard.

On 30 June 2012, Consolidated Group net debt to capital employed ratio excluding Gas Natural Fenosa stood at 14.7%. The same ratio stood at 23.3% considering preference shares. If capital employed from discontinued operations were not considered, these ratios would have stood at 17.6% and 27.9%, respectively.

It is worth noting the placement among professional and qualified investors of 61,043,173 of its treasury shares in January 2012, representing 5% of Repsol share capital at a price of €22.35 per share for a total amount of €1,364 million (see note 4 in the interim condensed consolidated financial statements). These shares were part of the own shares acquired on 20 December 2011.

The main financing activities carried out by Repsol in the period are the following:

- On 29 January 2012, the Group, through Repsol International Finance, B.V made a €750 million 7 year and 1 month bond issue at a fixed interest rate of 4.875%. The emission price was 99.937%, which is equivalent to mid swap +292 basis points. These bonds are listed on the Luxemburg Stock Exchange.

- On 7 February 2012, the Group, through Repsol International Finance, B.V. made another bond issuance amounting to €250 million. The fixed interest rate was 4.875% and the emission price was 103.166%, which is equivalent to mid swap +241.5 basis points. This issue together with the aforementioned issue, guaranteed by Repsol, S.A. were consolidated in the same serie, amounting to €1,000 million.

- A €1,000 million financing transactions via derivative instruments, maturing in 12 months, was implemented between June and July 2012. Regarding to the payment obligations of these derivative instruments, the Group has granted collateral guarantees, regulated by Royal Decree Law 5/2005, in the form of 104,762,387 Gas Natural SDG pledged shares held by Repsol Group representing 10.47% of said entity's share capital. The abovementioned transactions do not imply transfer of ownership with respect to the Gas Natural SDG, S.A. shares, retaining Repsol the inherent voting and economic rights. On 30 June 2012 the operations, which were registered in the caption "Bank borrowings" within the section "Bank borrowings, bonds, and other securities" in Group's balance sheet, amounted to €750 million. These operations implied guarantee for 78,135,484 shares, representing 7.81% of Gas Natural SDG share capital.

Regarding to Repsol credit rating, in the last months rating agencies Fitch, Standard & Poor's and Moody's Investors Service have announced downgrades of Repsol credit rating. Latest reviews by these agencies are detailed in section "Risk factors. Credit rating risk*"* in this interim management report.

## RISK FACTORS

The earnings and operations of Repsol are subject to risks as a result of changes in competitive, economic, political, legal, regulatory, social, industrial, business and financial conditions.

The risks faced by the Group in the second half of 2012 are fundamentally the same as those detailed in the management report accompanying the financial statements for 2011. This information should therefore be read in conjunction with the description of the risk factors included in the Consolidated Management Report 2011, as well as with Note 20 – Financial risk and capital management – of the Consolidated Financial Statements for the same year. Additionally, new risks for the Group have arisen (Expropriation of the Repsol Group shares in YPF, S.A and Repsol YPF Gas, S.A. and Credit rating review) during the first half of 2012 mainly due to the expropriation process of the Repsol Group shares in YPF y and Repsol YPF Gas, S.A. by the Argentinean government (see both section "Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.*"* in this interim management report and Note 3 of the interim condensed consolidated financial statements). Existing risks in 31

December 2011 that remain as such for the remaining part of 2012 in summary form as well as new risks in more detailed form are shown below.

**RISKS RELATING TO OPERATIONS**

**Expropriation of the Repsol Group shares in YPF, S.A. and Repsol YPF Gas, S.A.**

For Repsol, the main risk arising from the illegal expropriation of shares held by Repsol Group in YPF, S.A. and Repsol YPF Gas, S.A. lies in the uncertainty that exists as to the final amount of compensation to be paid by the Argentinean government to Repsol for the appropriation of control of both companies, as well as the timing and manner in which the payment will be made. Repsol has been forced to assert its rights against the Argentinean state before the courts of Argentina and other jurisdictions, including the International Centre for Settlement of Investment Disputes (ICSID). Any amendment to the hypotheses considered reasonable in jurisdictional processes and the valuation of the rights expropriated could result in positive or negative changes in the amount for which the shares in YPF, S.A. and Repsol YPF Gas, S.A. have been recognised and, therefore, could have an impact on the Group's financial statements. The lower the price or compensation received per share in YPF, S.A. and Repsol YPF Gas, S.A., the greater the negative impact will be on Repsol results or financial position. Nevertheless, Repsol cannot foresee all consequences, uncertainties and risks; nor can it quantify the total future impact the expropriation could have on the financial position of Repsol Group.

**The uncertainty of the economic context**

Economic tensions are causing greater social tensions in various parts of the world, as well as an upsurge in protectionism. Within the euro zone, these tensions have resulted in questions related to the viability of the single currency in its current form, given the difficulties experienced by countries in the euro zone in stimulating growth and increasing competitiveness without their own currency. The focus of these doubts has moved from Greece to Spain and Italy, which, due to their size, represent a qualitative leap in the scale of the euro zone crisis. The spread between Spanish public debt and German public debt has risen to more than 500 basis points, and Spain's credit rating is only just above junk status. In this context, coordination between central banks and governments is required in order to prevent the recession of 2009 from becoming a great depression.

Persistent pressure on the sustainability of government finances in advanced economies has led to strong tensions in credit markets, and could prompt fiscal reforms or changes in the regulatory framework of the oil and gas industry. Finally, the economic-financial situation could have a negative impact on third parties with whom Repsol does or could do business. Any of the factors described above, whether in isolation or in combination with each other, could have an adverse effect on the financial position, businesses, or results from Repsol operations.

**International benchmark crude oil prices and demand for crude oil may fluctuate due to factors beyond Repsol´s control**

World oil prices have fluctuated widely over the last 10 years and are subject to international supply and demand factors over which Repsol has no control. The fall in oil prices has a negative impact on the profitability of Repsol activities, on the valuation of its assets and on its investment plans. Likewise, a significant reduction of capital investments may negatively affect Repsol ability to replace oil reserves.

**Repsol's operations are subject to regulation**

The oil industry is subject to extensive regulation and intervention by governments in such matters as the award of exploration and production interest, the imposition of drilling and exploration obligations, restrictions on production, price controls, required divestment assets, foreign currency controls and nationalization, expropriation and the cancellation of contractual rights. As a general rule, license-holders are subject to the payment of royalties and income and production taxes, which can be high when compared with the taxes paid by other businesses.

**Repsol is subject to extensive environmental regulations and risks**

Repsol is subject to extensive environmental laws and regulations in practically all the countries in which it operates. These govern, among others matters, the Group's operations in the environmental quality standards for products, air emissions and climate change and energy efficiency, water discharges, the remediation of soil and groundwater, and the generation, storage, transport, treatment and final disposal of waste materials.

In particular, due to the concern over the risk of climate change, various countries have adopted or are considering the adoption of new regulatory requirements in order to reduce greenhouse gas emissions. These include the raising of taxes on carbon emissions, increased efficiency standards and the adoption of emissions trading systems. These requirements could increase the prices of Repsol products, as well as altering the demand for hydrocarbons towards relatively lower-carbon sources, such as renewable energies. In addition, compliance with greenhouse gas regulations may also require the company to upgrade the facilities, to monitor or sequester emissions, or to take other actions that may increase costs.

**Operating risks related to exploration and exploitation of oil and gas, and reliance on the cost-effective acquisition or discovery of, and, thereafter, development of new oil and gas reserves**

Oil and gas exploration and production activities are subject to particular risks, some of which are beyond the control of Repsol. These activities are exposed to production, equipment and transportation risks, natural hazards and other uncertainties relating to the physical characteristics of oil and natural gas fields. The operations of Repsol may be curtailed, delayed or cancelled as a result of weather conditions, technical difficulties, delays in the delivery of equipment or compliance with administrative requirements.

Moreover, Repsol must replace depleted oil and gas reserves with new proven reserves in a cost-effective manner that enables subsequent production to be economically viable.

**Location of reserves**

Part of the oil and gas reserves are located in countries that are or could be economically and politically unstable.

**Oil and gas reserves estimation**

In calculating proven oil and gas reserves, Repsol relies on the guidelines and the conceptual framework of the Securities and Exchange Commission's (SEC) definition of proven reserves and on the criteria established by the Petroleum Reserves Management System of the Society of Petroleum Engineers (PRMS-SPE). Under these rules, proven oil and gas reserves are those reserves of crude oil, natural gas or natural gas liquids for which, after analyzing geological, geophysical and engineering data, have a reasonable certainty of being produced -from a given date, from known reservoirs and under existing economic conditions, existing technology and existing government regulation- prior to the termination of the contracts whereby the corresponding operational rights were awarded, and regardless of whether probabilistic or deterministic approaches were used to arrive at the estimate. The accuracy of these estimates depends on a number of different factors, assumptions and variables, some of which are beyond the company's control.

**Repsol's natural gas operations are subject to particular operational and market risks**

Natural gas prices tend to vary between the different regions in which Repsol operates, and can also be lower than prevailing prices in other regions of the world.

In addition, Repsol has entered into long-term contracts to purchase and supply natural gas in various parts of the world, which present different risks (i) of the agreed prices being higher than the price at which such gas could be sold in other markets, (ii) of counterparties failing to fulfill their contractual obligations, thus, it might be necessary to look for other sources of natural gas at higher prices than those called for under such contracts, and (iii) of there being insufficient reserves in the countries in which proven reserves are linked to certain contracts, meaning that Repsol might not be able to satisfy its obligations under these contracts, several of which include penalty clauses for non-fulfillment.

**Conditions in the petrochemicals industry are cyclical**

The petrochemicals industry is subject to wide fluctuations in supply and demand reflecting the cyclical nature of the regional and international petrochemicals market, as well as to extensive government regulation and intervention in such matters as safety and environmental controls.

**Repsol’s current insurance coverage for all the operational risks may not be sufficient**

The company maintains insurance covering against certain risks inherent in the oil and gas industry, in line with industry practice. The insurance coverage is subject to deductibles and limits that in certain cases may be materially exceeded by its liabilities. They also contain exclusions which could leave the Group with limited coverage in certain events. On the other hand, the company may not be able to maintain adequate insurance at rates or on terms that it considers reasonable or acceptable, or be able to obtain insurance against certain risks that materialize in the future. If the company experiences an incident against which it is not insured, or the costs of which materially exceed its coverage, it could have a material adverse effect on its business, financial condition and results of operations.

**FINANCIAL RISKS**

The activities carried out by the Group entail various types of financial risk:

**Liquidity risk.** This is associated with the Group's ability to finance its obligations at reasonable market prices, and to carry out its business plans with stable financing sources.

**Credit risk.** The Group's exposure to credit risk is attributable, among others, to commercial debts from trading transactions, measured and controlled in relation to the customer or individual third party. Additionally, the Group is exposed to counterparty risk derived from non-commercial contractual transactions that may lead to defaults. In these cases, the Group analyzes the solvency of counterparties with which has or may have non-commercial contractual transactions.

**Market risk**

- **Exchange rate fluctuation risk:** Repsol is exposed to exchange rate risk because the revenues and cash flows originating from the sale of crude oil, natural gas and refined products are generally in dollars or are influenced by the dollar exchange rate. Likewise, the results of operations are exposed to exchange rate variations in the currencies of countries in which Repsol has operations. Repsol is also exposed to exchange rate risk in relation to the value of its assets and financial investments.

- **Commodity price risk:** As a result of its trade operations and activities, the results of the Repsol Group could be affected by volatility in the prices of oil, natural gas and derivative products.

- **Interest rate risk:** The market value of the Group's net financing and net interest expenses could be affected by interest rates fluctuations.

- **Credit rating risk:** At present, the credit ratings assigned to Repsol, S.A. by ratings agencies are as follows:

| TERM | STANDARD & POOR'S | MOODY'S | FITCH RATINGS |
|---|---|---|---|
| Long.......................................... | BBB- | Baa3 | BBB- |
| Short ......................................... | A-3 | P-3 | F-3 |
| Outlook ..................................... | Stable | Negative | Negative |
| Date of last review .................... | 22 June 2012 | 29 June 2012 | 8 June 2012 |

Credit ratings affect the cost and other conditions under which Repsol Group is able to obtain finance. Any downgrade in Repsol S.A.'s credit rating could restrict or limit the access of the Group to financial markets, increase the cost of any new finance, and have a negative effect on its liquidity.

# CORPORATE AREAS

## PEOPLE MANAGEMENT

At the end of June 2012, the total Repsol workforce was made up of 30,849 employees in more than 30 countries, mainly concentrated in Spain, which account for 75% of the total. It is also worth noting the company's presence as an employer in countries such as Portugal, Brazil, Peru, Ecuador, Trinidad and Tobago, Chile and Bolivia, among others.

By business areas, 10.86% of employees work in the Upstream area, 0.71% in LNG, 64.51% in Downstream, 15.91 % in Gas Natural SDG and 8.01% in the Corporate Centre.

## SAFETY AND THE ENVIRONMENT

The basis for managing safety and environmental at Repsol is the management system, which consists of an extensive body of standards, procedures, technical guides and management tools that are applicable to all company activities and which are constantly updated in line with industry best practices. The ISO 14001 and OHSAS 18001 certification has been promoted in the facilities as a way of encouraging continuous improvement and obtaining external validation of the management systems.

During the first six months of 2012, environmental investments were made to improve the environmental quality of oil products, to minimize air emissions, increase energy efficiency, optimize water consumption, reduce the pollutant load in water discharges and improve spill-prevention systems by applying available best practices and technological innovation. It is also worth emphasizing the efforts made to identify, appraise and correct possible polluting situations that may have occurred in the past.

Notable safety and environmental management milestones achieved in new projects include the project to expand the refinery in Cartagena, Spain, which has posed a major challenge for the company due to its scale. The largest-ever industrial investment in Spain has been carried out in an attempt to make Cartagena one of the best refineries in the world in terms of production technology, environmental sustainability, and employee safety. From an environmental perspective, the new facilities produce clean fuel for transport, promoting the use of biofuels and maximizing energy efficiency in the production process. The new industrial complex in Cartagena is already a world leader in environmental sustainability. A new cogeneration plant will be joined by wastewater and sulphur recovery plants, which easily meet the most significant environmental requirements.

In terms of safety management, the accident rate for the whole expansion process has been one-fiftieth of the average for the Spanish construction sector, even if we include the industrial installation process, with specific risks during the testing and start-up of equipment. Overall, in the five years the project has been in progress and among the close to 20,000 persons who have worked on it, only minor injuries have been sustained on the site, such as twists and sprains.

Repsol's commitment to the environment, which comprises one of the basic principles of the company, has also been apparent in all phases of the project to build the main offices of the company, Campus Repsol. LEED® environmental certification has been chosen to independently and externally validate compliance with the most highly-regarded standards for sustainability in construction. This certification, which is endorsed by the United States Green Building Council (USGBC), analyses the whole life cycle of the building and is the most widely recognised international certification.

## CORPORATE BRAND AND IDENTITY

Repsol has transformed and revitalized its corporate brand and identity with a twofold objective: to gain visibility in today's communication environments as well as reflecting the company's new vision.

This project was carried out by Repsol employees as well as external groups, providers, image experts, investors, journalists and opinion leaders and is the result of a rigorous process which began in 2011.

The rollout of the new brand, initiated with the new Strategic Plan, will be completed in the coming months, not only in group communications but also at service stations, products and services, company buildings and all areas inside and outside Spain.

The new company headquarters built to the most stringent sustainability criteria is one of the first examples of the application of the new brand.

# HIGHLIGHTS

It is worth noting that the following events have taken place during this period:

## UPSTREAM

On 14 February 2012, Repsol announced that Algerian authorities authorized the Development Plan for six fields in North Reggane Norte Project, situated in Algerian Sahara. Repsol holds 29.25% of the jointly operated consortium by Sonatrach (40%), RWE Dea (19.5%) and Edison (11.25%). Total development of the project foresees €2,225 million investments (approximately $3,000 million), including the construction of support and operating buildings. The consortium foresees initiate the production by mid-2016 and reach a stable production rate of 8 million gas cubic meters per day for the first 12 years of production.

On 27 February, Repsol announced the oil discovery in Campos basin in Brazil. The well, named Pão de Açúcar has 500 meter-thick hydrocarbon reservoir, one of the largest ever discovered in Brazil. Pão de Açúcar is the third discovery in BM-C-33 block, where Seat and Gavea oilfields are located. This last oilfield has been called as one of the 10 largest discoveries in the world in 2011. Repsol Sinopec Brasil operates and participates through its 35% interest in the discoverer consortium, formed by Statoil (35%) and Petrobras (30%).

## DOWNSTREAM

Repsol reached an agreement with a consortium of Chilean investors for the sale of 100% of its subsidiary Repsol Butano Chile for an approximate amount of $540 million. Aside from other financial assets, Repsol Butano Chile owns a 45% stake in Lipigas, a company marketing LPG in the Chilean market. The finalization of this transaction is contingent upon fulfilling the usual conditions for this type of operation. On 30 June 2012, the assets and liabilities of companies that are going to be sold were classified under Non-current assets and liabilities held for sale in the consolidated balance sheet.

This operation is classified under non-core assets divestments objectives of the 2012-2016 Repsol Strategic Plan.

## CORPORATE

On 16 January 2012, Repsol, S.A. implemented the 2012 Acquisition Plan to Repsol Group employees in Spain with permanent employment contract provided they comply with all requirements established in their general conditions and that decide voluntary have recourse to said Plan. The beneficiaries of this Plan can receive part of their 2012 corresponding compensation through shares of Repsol, S.A. up to an annual maximum of €12,000. The Plan began on 1 January 2012 and will finish on 31 December 2012. The delivery of such shares to their beneficiaries will be monthly carried out.

On 25 February 2012, fulfilling the agreement adopted by the Board of Directors on 28 September 2011, the Board of Directors unanimously agreed to modify the Regulation of the Board of Directors and to propose to General Assembly the modification of the Articles of Association following the Appointments and Retributions Committee proposal in line with Corporate Government best practices and recommendations.

The main aspects of the reform are:

- Strengthening of the guarantees applicable to linked operations especially relevant between the company and its significant shareholders.
- Modification of the regulation of non-competence of the Directors obligation, allowing its dispensation under certain conditions. Also certain suppositions out of the prohibition of the competence are foreseen such as those companies Repsol maintains a strategic alliance with.
- Deletion of the limitation, included in Articles of Association, of the maximum number of votes a unique shareholder can cast.

On 28 February 2012, Repsol, S.A. and Petróleos Mexicanos ("Pemex") communicated their respective Boards' approval of a strategic industrial alliance, which will generate profits in the short and medium term and achieve positive synergies for both companies. Initially, the alliance is to last 10 years. The alliance covers the Upstream and LNG business areas in America, and the Downstream business area in America, Spain, and Portugal, as well as cooperation in joint training programs. Repsol or Pemex will respectively evaluate the business and cooperation opportunities that arise in the course of the alliance. The constitutional and legal framework regulating the hydrocarbons sector in Mexico allows Pemex to count on Repsol as an ally, as per the alliance, for evaluation and promotion of business opportunities that may be of mutual interest.

Pemex has ratified its commitment to stability and will not increase its interest in Repsol beyond 10% or reduce it to below 5%. Notwithstanding the above, after one year has elapsed from the alliance signature date, Pemex can reduce its interest to below 5%. Should this occur, Repsol could dissolve the alliance.

On 6 June 2012, Repsol, S.A. implemented the Second Cycle of the Plan for Delivery of Shares addressed to the beneficiaries of the Pluri-annual Remuneration Program (the “Plan”). This Plan allows the beneficiaries of said schemes (including Executive Directors and the rest of the members of Repsol, S.A. Executive Committee) to invest in Repsol, S.A. shares up to 50% of the annual incentive gross amount. In case the beneficiary holds the acquired shares for a three-year-period from the initial investment and all conditions are fulfilled, the Company would deliver one additional share per three shares initially acquired.

On 31 May 2012, Annual General Meeting of Repsol was held in Madrid, which approved the change of the company name, Repsol, S.A. (formerly Repsol YPF, S.A.) and also two liberated capital increases as an instrument for the development of the shareholders’ compensation system called “Flexible Dividend Programme” which allow the shareholders to decide its compensation in cash or in Company´s shares. Also on 31 May 2012, after holding the Annual General Meeting, the Board of Directors adopted the implementation of the first capital increases aforementioned.

The period of free allocation rights negotiation corresponding to the capital increase was finished on 5 July 2012. A total of 63.64% of Repsol holders (totaling 776,935,821 rights) have opted for receiving the dividend in new Repsol shares in the proportion of one new share per 22 rights. Therefore, the number of ordinary shares with a nominal value of one euro issued in the capital increase is 35,315,264 and the nominal amount is €35,315,264, representing a 2.89% increase on the share capital of Repsol before the capital increase. The capital increase was filed in the Madrid Mercantile Registry on 10 July 2012 and the new shares were listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Spanish Automated Quotation System (*Mercado Continuo* by its name in Spanish) on 13 July 2012. Repsol will also apply for the listing of the new shares in the Buenos Aires Stock Exchange. Subsequent to the capital increase, Repsol, S.A.'s share capital amounted to €1,256,178,727 fully subscribed and paid in, consisting of 1,256,178,727 shares with a nominal value of 1 euro each. According to accounting criteria, the capital increase has been registered in Groups' Financial Statements with 30 June 2012 effect.

Moreover, during the period established for that purpose, the holders of 36.36% of the free-of-charge allocation rights (443,893,565 rights), accepted the irrevocable commitment to purchase rights assumed by Repsol at a fixed price of 0.545 euros (gross) per right. Accordingly, Repsol acquired the abovementioned rights for a total amount of €242 million and waived the shares corresponding to the free-of-charge allocation rights acquired by virtue of the mentioned commitment. As a consequence of the previous, it was recognized a decrease in equity under "Prior year results and other reserves" and the payment obligation with the shareholders who had accepted this irrevocable purchase commitment.