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.

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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.