REPSOL, S.A.
and investees comprising the
REPSOL Group

INTERIM MANAGEMENT REPORT
FOR THE SIX MONTH
PERIOD ENDED JUNE 30, 2013

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

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

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I. GENERAL OVERVIEW AND ECONOMIC-FINANCIAL INFORMATION

1.1) MACROECONOMIC ENVIRONMENT

On the whole, the global economy is advancing at a modest rate of 3% in an environment of gradual recovery of confidence and greater financial stability. Reflecting this, the Morgan Stanley Capital International (MSCI) index for global stock markets rose by 7% between January and June 2013. Furthermore, the absence of significant inflationary pressures has allowed the central banks of the major international currencies to implement lax monetary policies that act as incentives to consumption and investment.

The fiscal policy decisions taken in the United States tax at the end of 2012 have contributed to removing uncertainties and have favoured the upturn in activity, thus offsetting the reduction in public spending. A recovery in the real estate and employment sectors allows us to be optimistic about the prospects of the U.S. economy. IMF estimates show that the world's largest economy will grow 1.7% in 2013 and 2.7% in 2014.

In contrast with the tensions experienced recently at key moments, in the first half of 2013 the risks as regards global financial stability have been reduced considerably. Moreover, systemic risks -that could entail graver consequences- seem to have been balanced out, thus benefitting financial markets and lowering short-term rates to historic lows. Only the debate within the US Federal Reserve on the timing for the normalisation of its monetary policy has provoked an upturn in long-term interest rates in several countries since the end of May.

In the Eurozone, mandatory fiscal adjustment policies under Community rules on excessive deficits have weighed negatively on domestic demand, causing the sharpest contraction of the current recession cycle: representing 1.1% of real GDP year-on-year. For 2014 the relaxing of fiscal targets in certain countries will lead to improvement in growth perspectives. Furthermore, the number of reforms adopted at national and European level is remarkable and has allowed us to observe significant cost competitiveness improvements in the Eurozone. A good example is the evolution of the Spanish current account balance, which the IMF estimates will go from 1% below GDP in 2012 to 1.1% above GDP at the end of 2013.

The IMF expects the Eurozone GDP to shrink by 0.6% in 2013, the same figure as 2012, to subsequently come out of the recession with growth of 0.9% in the following year. Excessive indebtedness, the under-capitalisation of the financial system and structural unemployment represent the most significant factors holding back European growth.

The weak growth of the more advanced economies has also led to moderate growth rates in the majority of developing countries. In addition, growth in China continues to be lower than expected, standing at 7.5% in the second quarter of 2013, thus casting doubts on the second largest economy in the world and its ability to act as an engine of global growth. Brazil and Argentina have moderated Latin America's growth to 3% in 2012 and 2013, and Africa, as one of the fastest growing regions in the world, will keep growing at slightly over 3.1% in 2013.

Inflationary pressures have moderated, particularly in advanced economies along with the majority of developing economies. Inflation is still a persistent factor in emerging economies with strong growth in countries such as Brazil, India, South Africa or Indonesia, where rising prices represent an obstacle to their development. Although this allows central banks to implement accommodative policies to support economic recovery it also introduces added volatility as markets try to anticipate the end of such policies.

With regard to the energy markets, the fluctuations in oil prices registered this year have been closely linked to the evolution of the health of global economy. The evolution oil prices was bullish during the first two months of the year followed by a downturn; a trend that was followed to a greater or lesser extent by the remaining commodities. The average price of Brent crude during the first half of 2013 stood at $107.5 per barrel, while WTI averaged $94.2 per barrel in the same period. During the first half of the year, the average spread between both international benchmarks stood at $13.3, and there has been a downward trend since then. This year the spread has dropped from more than $20 in late January to less than $5 at the end of June, a figure that had not been recorded since December 2010. This significant decrease in the spread has been caused by improvements in the oil refining and transport infrastructure that have helped to decongest the oil hub located in Cushing, Oklahoma, in the central region of the United States.

1.2) RESULTS AND MILESTONES DURING THE PERIOD

Amounts in millions of euros

	June 2013	**June 2012**	**Variation %**
Upstream	1,161	1,144	1.5
Downstream	79	277	(71.5)
LNG	481	237	103.0
Gas Natural Fenosa	464	475	(2.3)
Corporate	(194)	(167)	(16.2)
Total operating income pertaining to the reported segments	**1,991**	**1,966**	**1.3**
Results not assigned (Financial results)	(385)	(433)	11.1
Other results (Share of results of companies accounted for using the equity method)	74	66	12.1
CONSOLIDATED NET INCOME FOR THE YEAR	**1,680**	**1,599**	**5.1**
Income tax	(717)	(674)	(6.4)
Net income for the period attributable to the parent from continuing operations	**963**	**925**	**4.1**
Net income for the period from continuing operations attributable to minority interests	(18)	(22)	18.2
Net income for the period from continuing operations attributable to the parent	**945**	**903**	**4.6**
Net income for the period from discontinued operations after tax	**(44)**	**242**	**(118.2)**
Net income for the period from discontinued operations attributable to minority interests	0	(109)	100.0
Net income for the period from discontinued operations attributable to the parent	**(44)**	**133**	**(133.1)**
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	**901**	**1,036**	**(13.0)**

Operating income in the first half of 2013 stood at €1,991 million, which represents an increase of 1.3% on same period in 2012 (€1,996 million). This improvement is largely explained by the positive evolution of results in the Upstream and LNG businesses. In Upstream, emphasis is placed on increased production volumes as a result of the implementation of five of the ten key projects in the Strategic Plan and owing to lower exploration costs. Meanwhile, for LNG the improvement in results is explained by the higher profit margins in the retail LNG business in North America. These good results have been partially offset by the behaviour of the Downstream business, particularly in Spain, where results have been negatively affected by domestic difficulties: the prices of crude oil and petroleum products have had a negative impact on the value of inventories and the economic crisis has reduced sales volumes and margins at service stations business in Spain.

Nevertheless, there has been a notable improvement in EBITDA for continuing operations, reaching €3,376 million in the first half of 2013, compared to €3,331 million for the first half of 2012.

Repsol's net income from continued operations attributable to the parent company in the first half of 2013 ascended to €945 million, 4.6% higher than the amount for the same period in 2012.

The total result attributed to the parent company in the first half of 2013 amounted to €901 million, compared to €1,036 million in the first half of 2012, including reported results up to the time of loss of control arising from the consolidation of YPF and YPF Gas operations and associated group companies.

The main variations in results during the first half of 2013, compared with the same period of the previous year, are set out below:

Operating results by business area

Upstream

The operating result in the first half of 2013 amounted to €1,161 million, which represents an increase of 1.5% compared to the first half of 2012, due to a higher volume of production with the commissioning of five out of ten key projects of the Strategic Plan, improved gas realisation prices and lower exploration costs. These results have been able to offset lower sales volumes in Libya as well as the higher costs associated with the new projects.

The main operating figures are detailed below:

INTERNATIONAL PRICES	Jan-Jun 2013	Jan-Jun 2012	% Variation 13/12
Brent ($/Bbl)	107.5	113.6	-5.4
WTI ($/Bbl)	94.3	98.2	-4.0
Henry Hub ($/MBtu)	3.7	2.5	48.0
Average exchange rate ($/€)	1.31	1.30	0.8

REALISATION PRICES	Jan-Jun 2013	Jan-Jun 2012	% Variation 13/12
CRUDE ($/Bbl)	90.0	90.3	-0.3
GAS ($/Thousand scf)	4.0	3.7	8.1

PRODUCTION	Jan-Jun 2013	Jan-Jun 2012	% Variation 13/12
PRODUCTION OF LIQUIDS (Thousand BOE/d)	150	140	7.1
PRODUCTION GAS (*) (Million scf/d)	1,178	1,021	15.4
TOTAL PRODUCTION (Thousand BOE/d)	360	322	11.8

Bbl: Barrels
Btu: British thermal unit
Scf: Standard cubic feet
Scf/d: Cubic feet per day
Boe: Barrels of oil equivalent
Boe/d: Barrels of oil equivalent per day

Production in the first half of 2013 (360 thousand barrels of oil equivalent per day, "Kboe/d") has been 12% higher than the same period in 2012 (322 Kboe/d), mainly due to the entry into production of new assets in Russia and Spain, the start-up of Margarita-Huacaya gas development project in May 2012, the increase in volumes in Trinidad and Tobago owing to fewer maintenance stoppages than in 2012 and the start of production in Sapinhoa, all partially offset by lower production resulting from the sale of 20% of block 16 in Ecuador.

Operating investments in this business segment for the first six months of 2013 amounted to €1,151 million. Investment in development accounted for 72% of the total and took place primarily in the United States (36%), Brazil (18%), Venezuela (13%) and Trinidad and Tobago (12%). Investment in exploration represented 20% of total investment and focused chiefly on the United States (42%), Brazil (15%), Norway (9%) and Russia (6%).

Significant events in the period

On January 5, 2013, commercial exploitation began at the Sapinhoá mega field, located in block BM-S-9 of the Brazilian pre-salt fields. The first producing well (Guará-1), with a production potential of over 25,000 barrels/day, was connected to the platform *Cidade de São Paulo* ahead of the scheduled commissioning date. Over the next few months new wells will be connected to the platform, with an anticipated production of 120,000 barrels of oil per day in the first half of 2014. In the second development phase of the Sapinhoá field the *Cidade de Ilhabela* platform will be installed, with a daily production capacity of 150,000 barrels of oil and 6 million cubic metres of gas and a commissioning date scheduled for the second half of 2014.

On March 6, 2013 the company announced the signing of an agreement with the Romanian firm OMV Petrom for the joint exploration of four deep level blocks in Romania. The blocks are located in the frontal part of the folded belts of the Carpathians. Repsol holds a 49% stake in these blocks.

On March 7, 2013, the start of production was announced at the Syskonsyninskoye (SK) field in Russia with an initial daily production of 855,000 cubic metres of gas (5,350 BOE per day) operating at 100%. The current daily production at 100% is approximately 1,450,000 cubic metres of gas (9,100 BOE per day). The on-going development of the field contemplates a total of 11 producing wells by early 2014. The launch of this field is the first production project conducted jointly by Repsol and Alliance Oil since the creation of their joint venture for oil exploration and production in Russia.

On April 23, 2013, Repsol announced three oil discoveries at different depths in the three wells drilled in the 2012-2013 exploration campaign in Alaska. The wells Qugruk 1 (Q-1) and Qugruk 6 (Q-6) showed hydrocarbons at two levels with encouraging results in production testing, while at the well Qugruk 3 (Q-3) hydrocarbons were found at several levels. The evaluation and exploration work will continue during the winter of 2013-2014 since exploration activities in this area can only be performed during four months of the year when the ground is frozen. With a 70% stake, Repsol is the operating company of the consortium.

On May 14, 2013 Repsol signed a PSC (Production Sharing Contract) with the Government of Guyana for the exploration of the Kanuku offshore block. This block covers an area of 6,525 km² and is located off the coast of Guyana, about 160 kilometres from the mouth of the Berbice River.

On June 12, 2013 the Norwegian Ministry of Oil and Energy announced the award to Repsol of four exploration licenses in Round 22. Two of them are located in the Barents Sea and two in the Norwegian Sea. Repsol will be the operating company for two of these licenses.

In June the Sagitario exploratory drilling campaign was completed in block BM-S-50 in the deep waters of the Santos Basin in Brazil. The company IHS included it on the list of the ten largest global discoveries for the first half of 2013. Repsol Sinopec Brazil has a 20% stake in this block operated by Petrobras.

Downstream

Operating income in the first half of 2013 was €79 million, representing a reduction of 71% from €277 million for the same period in 2012. The most influential factors on these results are the negative impact of price fluctuations for crude oil and petroleum products on inventories along with lower margins and volumes at Spanish service stations as a result of the economic crisis. This decrease was partially offset by the increase in distillate volumes and improved refining margins, following the commissioning of the expansion of the Cartagena and Bilbao refineries, leading to increased optimisation of the production. Furthermore, improved LPG margins have contributed positively.

The main operating figures are detailed below:

	Jan-Jun 2013	Jan-Jun 2012	% Variation 13/12
Crude Processed (millions of tons)	19.3	16.7	15.6
Oil product sales (thousands of tons)	21,290	19,977	6.6
Petrochemical product sales (thousands of tons)	1,197	1,134	5.6
Sales of LGP (thousands of tons)	1,273	1,388	-8.3

Operating investment in the Downstream area for the first half of 2013 amounted to €220 million compared to €295 million in the same period last year.

Significant events in the period

On April 3, 2013, the new Fuel Oil Reduction Unit was launched at the Petronor refinery, whose commissioning, including environmental programs, involved an investment of €1,006 million. With this expansion Petronor now has a processing capacity of 11 million tons of oil per year, one of the largest in Spain. The refinery eliminates the production of fuel oil and increases the output of the products with most market demand.
On June 5, 2013 the Official State Gazette 3/2013 published the decision to create the National Commission on Markets and Competition, which assumes the functions of monitoring and controlling regulated markets. Among other matters, the new regulations add the liquid hydrocarbons sector to sectors already subject to a control system, including in its scope those companies involved in the refining, pipeline transportation and storage of oil products or companies that are the owners of these assets, which furthermore acquire the status of strategic assets.

Similarly, during this period Royal Decree Law 4/2013 of 23 February was published on measures to support entrepreneurs and stimulate job creation, which includes a series of measures in the wholesale and retail markets of oil products in order to increase effective competition in the sector, and Order IET/463/2013 dated 21 March, updating the system to automatically determine maximum sale prices, before tax, of bottled liquefied petroleum gases (see Note 2 "Basis of Presentation - Regulatory Framework" of the condensed consolidated interim financial statements for the six months ending 30 June 2013).

LNG

Operating income in the first half of 2013 amounted to €481 million, 103% higher than the same period for 2012. This increase is primarily due to higher marketing margins in North America -an activity that after the sale of the assets of Shell LNG will remain in the Repsol Group- and to higher LNG marketing margins and volumes.

The volume of LNG traded in the first half of 2013 amounted to 230 TBTU (Trillion British thermal unit), representing an increase of 14% of the volume traded in the same period of 2012.

Operating investment in the first half in the LNG area amounted to €11 million. In 2012 investments reached €17 million.

Significant events in the period

On February 26, 2013 Repsol signed an agreement with Shell for the sale of its LNG assets and business. For more information on this agreement (see Note 12 "*Other Information*" of the condensed consolidated interim financial statements for the six month period ended June 30, 2013).

Gas Natural Fenosa

Operating income for the first half of 2013 was €464 million, compared with €475 million for the same period the previous year. This decrease is mainly due to a reduced contribution from Union Fenosa Gas and worse results in the electricity business in Spain, which was partially offset by higher margins on wholesale gas sales.

Accumulated operating investments during the semester amounted to €178 million, intended primarily for gas and electricity distribution activities, both in Spain and 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 €194 million was posted in 2013, against the €167 million in net expenses incurred in 2012.

Financial result

Financial results for the first half of 2013 amounted to €385 million in spending, which represents a decrease in net expenditure of 11% against the same period last year, highlighting the capital gain from the Offer to Repurchase preference shares, partially offset by exchange differences, mainly in the euro/dollar position.

Income tax

The effective tax rate for the first half of 2013 applicable to continuing operations was estimated at 45%, which is over the estimate for the same period of the previous year (44%); this is mainly due to increased profits in areas with higher tax burdens, such as Upstream businesses and the decrease of results in the Downstream business, taxed at lower rates.

Results from discontinued operations

Results from discontinued operations amounted to €-44 million in the first half of 2013 compared to €133 million in the first half of 2012.

This result includes the formerly controlled businesses of YPF and YPF Gas and the expenses related to the expropriation process. Expenses for 2013 are mainly related to the aforementioned assets, including a provision of $65 million reflecting the agreement for the withdrawal of the claim by the State of New Jersey against Repsol, among others (see Note 9 *Contingencies and Guarantees* of the condensed consolidated interim financial statements for the six months ending June 30, 2013). In 2012, this heading featured the impact on income derived from the loss of control as a result of the expropriation of YPF, YPF Gas and subsidiary companies as well as the results arising from the consolidation of these operations up to the loss of control.

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

The major updates regarding the expropriation process and its accounting consequences which have taken place in the first half of 2013 are described in detail in the condensed consolidated interim financial statements for the six months ending June 30, 2013. However, this information should be read in conjunction with the section "*Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.*" included in the Consolidated Management Report for the year 2012, and likewise, Note 5 of the financial statements for said financial year.

According to Repsol, the expropriation is manifestly unlawful and highly discriminatory (it only affects YPF S.A. and YPF Gas S.A. and no other oil and gas companies in Argentina; furthermore, it is expropriating only the participating interest of one shareholder of YPF S.A. and YPF Gas S.A., namely Repsol, and not the other shareholders), the public interest it pursues is not justified in any way and it is a clear breach of the obligations assumed by the Argentinian government when the privatisation of YPF took place.

During the first half of 2013, Repsol has continued to pursue proceedings before the ICSID arbitration tribunal and the courts of Argentina, Spain and New York State. With regards to the legal action before the ICSID, the tribunal that will analyse the claim filed by Repsol has already been constituted, with the appointment of the chairman and arbitrators nominated by each of the parties. In addition, Mercantile Court No. 1 of Madrid has dismissed the appeal filed by YPF and declared itself competent to hear the claim filed by Repsol.

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.

1.3) FINANCIAL OVERVIEW

The Consolidated Group's net financial debt at the end of first half 2013 was €7,856 million compared to €8,938 million at the end of 2012. Taking into account preference shares, net financial debt at June 30, 2013 stood at €10,754 million, compared to €12,120 for the previous period.

The Group's net financial debt excluding Gas Natural Fenosa, i.e. excluding the financial debt relating to this company, was €3,442 million, compared to €4,432 million for the previous period.

The ratio of net debt to capital employed at the end of first half 2013 for the Consolidated Group stood at 19.6%. Taking into account preference shares, this ratio stands at 26.9%. Excluding capital employed from discontinued operations, these ratios would have been 23% and 31.6%, respectively.

The ratio of net debt to capital employed on June 30 for the Consolidated Group excluding Gas Natural stands at 9.8%. Excluding the capital employed from discontinued operations, this ratios would have been 11.8%.

The EBITDA generated in the period, amounting to €3,376 million, has allowed the Group to cover payments on investments, the slight increase in working capital, taxes paid and interest for the period.

Preference shares

At December 31, 2012, the Group held preference shares amounting to €3,182 million, corresponding to those shares issued in May and December 2001 by Repsol International Capital Ltd., and issued in May 2003 by the group Gas Natural Fenosa through Union Fenosa Financial Services Ltd.

On May 31, 2013 the Boards of Directors of Repsol International Capital Ltd. and Repsol, S.A. agreed, in their respective jurisdictions, to carry out the following transaction: (i) a voluntary cash Repurchase Offer for Series B and Series C Preference Shares issued by Repsol International Capital Ltd., and, simultaneously and linked to the

Repurchase Offer, (ii) a public offering of Series I/2013 straight bonds belonging to Repsol, S.A. aimed at those accepting the Repurchase Offer.

The acceptance period for the Repurchase Offer ended on June 25, 2013 with 97.21% overall acceptance (Series B 97.02% and Series C 97.31%). The total sum that Repsol International Capital, Ltd. paid on July 1 to those accepting the Repurchase Offer amounted to €2,843 million in cash, of which €1,458 million was applied to the Repsol bond subscription which were admitted to trading on the AIAF Fixed Income market on July 2, 2013.

In addition, on April 16, 2013 the Board of Directors of Gas Natural authorised a purchase offer for preference shares issued on May 20, 2003 by the group company Unión Fenosa Financial Services USA, LLC, and that on May 20 amounted to a single payment of €162 million (for Repsol's stake in that group) to those accepting the offer (88.56% of the total nominal amount of the issue).

For more information (see the section *Preference Shares* in Note 5 of the consolidated interim financial statements for the six months ending June 30, 2013).

Treasury shares and own equity investments

Among the treasury transactions performed during the period it is worth highlighting the purchase on March 4, 2013 by the Singapore investment company Temasek of 64.7 million Repsol shares held in treasury stock, representing 5.045% of the share capital, at a price of €16.01 per share, signifying a payment to Repsol of €1,036 million.

Other financing transactions

The main financing activities undertaken by Repsol in the year were as follows:

- On May 28, 2013 Repsol International Finance, B.V. (RIF), issued bonds amounting to €1,200 million at seven years, with an annual coupon of 2.625% admitted to trading on the Luxembourg Stock Exchange. Additionally, during the first half-year, RIF released issues of Euro Commercial Paper (ECP) amounting to €760 million and $131 million.

- In May 2013 the European Investment Bank (EIB) funded Repsol's research and development program with €200 million. The duration of the loan is 10 years, with a grace period of 3 years and accruing interest at 3-month Euribor plus a spread of 1.402%.

- Also during the first semester, Gas Natural Fenosa closed three capital market issues, one in January for €180 million at ten years and an annual coupon of 3.875%, another also in January for 75 million Swiss francs with maturity in February 2019 and annual coupon of 2.125%, and two more issues in April for €225 million and €90 million with maturities in April 2022 and 2017 and annual coupons of 3.875% and 2.310%, respectively. In addition, Gas Natural Fenosa has released ECP issues amounting to €362 million. The amounts shown reflect the percentage stake of Repsol in that group.

Credit Ratings

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	Stable	Stable
Date of last review........................	June 22, 2012	March 01, 2013	January 31, 2013

1.4) SHAREHOLDER REMUNERATION

In 2012 Repsol launched the "Repsol Flexible Dividend" shareholder remuneration program for the first time. The system is implemented through two capital increases against voluntary reserves derived from retained earnings, with the irrevocable commitment of Repsol S.A. to purchase free-of-charge allocation rights at a guaranteed fixed price under this program, Repsol offers its shareholders the opportunity to receive their remuneration, in whole or in part, in new paid-up shares issued by the company or in cash by selling the free-of-charge allocation rights received, either on the market at the share trading price or to the company.

In the capital increase by issue of bonus shares in January 2013, Repsol, S.A. acquired 389,278,581 free-of-charge allocation rights from shareholders who accepted the irrevocable commitment to purchase at a gross price of €0.473 guaranteed by law, representing a disbursement of €184 million. Furthermore, an additional €410 million in shares were used to remunerate shareholders corresponding to 26,269,701 new shares issued with the capital increase.

In June 2013, Repsol paid a cash dividend of €0.04 per outstanding share with dividend rights, amounting to €51 million.

Additionally and under the "Repsol Flexible Dividend" program, in the share capital increase issued in July 2013, Repsol, S.A. acquired 521,556,172 free-of-charge allocation rights from shareholders who accepted the irrevocable commitment to purchase at guaranteed gross price of €0.445, representing a disbursement of €232 million in July. Furthermore, an additional €339 million in shares were used to remunerate shareholders, corresponding to 20,023,479 new shares issued with the capital increase.

1.5) RISK FACTORS

Repsol's operations and earnings are subject to risks as a result of changes in competitive, economic, political, legal, regulatory, social, industrial, business and financial conditions. Investors should carefully consider these risks. Any of these risks could have a negative impact on the Repsol's business, the results or financial position.

Furthermore, future risk factors, either unknown or not considered relevant by Repsol at present, could also affect the company's business, results, and financial situation.

The risks faced by the Group in the second half of 2013 are the same as those detailed in the management report accompanying the financial statements for 2012. This information should therefore be read in conjunction with the description of the risk factors included in the Consolidated Management Report 2012, as well as with Note 21 "*Financial risk and capital management*" of the Consolidated Financial Statements for the same year.

Existing risks in December 31, 2012 that remain as risks for the remaining part of 2013 in summary form are shown below.

OPERATIONAL RISKS

Uncertainty in the current economic context

Despite the European Central Bank's (ECB) extremely accommodative monetary policy, the financial conditions in the Eurozone are far from relaxed or stable. While the ECB has proven to be key in stabilising the financial system, its ability to reorganise and restructure European banks is limited in the absence of a genuine European Banking Union.

The banking system's NPL ratios remain high and could worsen owing to the length of the recession, making it difficult to restore overall confidence in the financial system. Financial institutions are restricting the availability of credit, except for customers with higher credit ratings, forced by regulators and the markets to raise their capital ratios and liquidity.

Furthermore, persistent pressure on the sustainability of government finances in advanced economies has led to pronounced 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 of Repsol's operations.

Potential fluctuations in international prices of crude and reference products and in demand owing to factors beyond Repsol's control

World oil prices have fluctuated widely over the last ten years and are driven by international supply and demand factors over which Repsol has no control.

Reductions in oil prices negatively affect Repsol’s profitability, the value of its assets and its plans for investment. Similarly, a significant drop in capital investment could negatively affect Repsol’s ability of replace its crude oil reserves.

International product prices are influenced by the price of oil and the demand for products, therefore, the international prices of crude and products affect the refining margin.

Regulation and tax framework of Repsol's operations

The oil industry is subject to extensive regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling and exploration obligations, restrictions on production, price controls, required divestments of assets, foreign currency controls, and the development and nationalization, expropriation or cancellation of contractual rights.

Hydrocarbons production’s license holders are generally required to make certain tax or royalty payments and pay income tax on their production, which can be high when compared with the taxes paid by other businesses.

Likewise, oil refining and petrochemical industry activities, in general, are subject to extensive government regulation and intervention in such matters as safety and environmental controls.

Repsol is subject to extensive environmental and safety legislations and risks

Repsol is subject to an extensive environmental and safety legislations and regulations in practically all the countries where it operates, which regulate, among other matters affecting the Group's operations, environmental quality standards for products, air emissions and climate change, energy efficiency, water discharges, remediation of soil and groundwater, and the generation, storage, transportation, treatment and final disposal of waste materials and safety.

In particular, and due to concerns over the risk of climate change, a number of countries have adopted, or are looking into adopting, new regulatory requirements to reduce greenhouse gas emissions, such as carbon taxes, increasing efficiency standards, or adopting emissions trading schemes. Repsol continues working on improving energy efficiency and the reduction of greenhouse gases at its facilities. These requirements could make Repsol’s products more expensive as well as shift hydrocarbon demand toward relatively lower-carbon sources, such as renewable energies. In addition, compliance with greenhouse gas regulations may also require Repsol to upgrade its facilities, monitor or sequester emissions or take other actions that may increase the cost of compliance.

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. Repsol's operations 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 Repsol's oil and gas reserves are located in countries that are or could be economically or 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 Repsol's control.

Projects and operations developed through joint ventures and partnerships

Many of the Repsol Group's projects and operations are conducted through joint ventures and partnerships. In those cases where Repsol does not act as the operator, its ability to control and influence the performance and management of the operations, and to identify and manage risks is limited. Additionally, there is a possibility that one of Repsol's partners or another member in a joint venture or associated company fails to comply with its financial obligations or incurs in another breach that could affect the viability of a project.

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

Repsol holds 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. Repsol’s insurance policies contain exclusions that could leave the Group with limited coverage in certain events. On the other hand, Repsol may not be able to maintain adequate insurance at rates or on terms considered reasonable or acceptable, or be able to obtain insurance against certain risks that could 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 situation and results of operations.

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.

Cyclical nature of petrochemical activity

The petrochemicals industry is subject to wide fluctuations in supply and demand, reflecting the cyclical nature of the chemicals market on a regional and global scale.

The Repsol Group is subject to the effects of administrative, judicial and arbitration proceedings.

The Repsol Group is subject to the effects of administrative, judicial and arbitration proceedings arising from the performance of its activities. Likewise, Repsol could be involved in other potential future litigation the scope, content or outcome of which Repsol cannot predict. All present or future litigation involves a high degree of uncertainty and, therefore, the resolution of these disputes could affect the business, results or financial position of the Repsol Group.

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

The main risk for Repsol deriving from the expropriation of the Repsol Group's shares in YPF S.A. and YPF Gas S.A. and other unlawful measures by the Argentine Government related to the expropriation lie in the uncertainty associated with the results of all judicial or arbitration proceedings related to the restoration of the shares in YPF S.A. and YPF Gas S.A. belonging to Repsol subject to expropriation and/or the final amount of compensation the Argentine State is obliged to pay Repsol for appropriation of control of the two companies and other damages and losses caused to Repsol, as well as the time and form in which such payment would take place. Repsol has been obliged to claim its rights against the Argentine State in the Courts in Argentina and other jurisdictions, among them under the jurisdiction of the International Centre for Settlement of Investment Disputes (ICSID) by means of initiation of an arbitration proceeding. Any amendment to the hypotheses considered reasonable, both in jurisdictional processes and the valuation of the rights expropriated and other affected rights, could result in positive or negative changes in the amount for which the shares in YPF S.A. and YPF Gas S.A. have been recognised and, therefore, could have an impact on the Group's financial statements. However, one must remember the risks and uncertainties inherent in carrying out any valuation, which are inevitable as a consequence of the need to formulate, for accounting purposes, opinions of future events that, to a large extent, are beyond the control of Repsol. The lower the price or compensation received per share in YPF S.A. and YPF Gas S.A., the more negative the impact will be on Repsol's results or financial position. Nevertheless, Repsol cannot foresee all consequences, uncertainties and risks; nor can it quantify the total future impact the expropriation and related measures could have on the business, financial position and results of the Repsol Group.

FINANCIAL RISKS

Group business is exposed to different kinds of financial risk, including:

Liquidity risk

Liquidity risk is associated with the Group's ability to finance its obligations at reasonable market prices, as well as being able to carry out its business plans with stable financing sources.

Credit risk

Credit risk is defined as the possibility of a third party breaching its contractual obligations, giving rise to losses for the Group.

The Group's credit risk exposure mainly relates to trade accounts payable, which are measured and controlled by individual client or third party. In addition, the Group also has exposure to counterparty risk arising from non-commercial contractual operations that may lead to defaults. In these cases, the Group analyses the counterparties solvency with which it maintains or could maintain non-commercial contractual relations.

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*:** In the normal course of operations and trading activities, the Repsol Group earnings are exposed to volatility in the price of oil, natural gas, and related 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: Credit ratings affect the cost and other conditions under which the 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.

II. CORPORATE AREAS

2.1) PEOPLE MANAGEMENT

In late June 2013, Repsol's total workforce stood at 30,656 employees, distributed in over 30 countries, concentrated mainly in Spain, accounting for 74% of the total. From the employment point of view it is worth highlighting the company's presence in countries such as Peru, Portugal, Ecuador, United States, Trinidad and Tobago, Venezuela, Bolivia, Brazil and Libya among others.

By business area, 13% of employees are concentrated in Upstream, 1% in LNG, 63% in Downstream, 15% in Gas Natural Fenosa and 8% in the Corporate Centre.

2.2) SUSTAINABLE ENERGY AND CLIMATE CHANGE

Repsol has achieved its strategic target of reducing emissions of greenhouse gases (GHG). Having verified a reduction of 442,843 t/CO2 thanks to its actions in 2012, in the first half of 2013 the company has confirmed it has already achieved its target reduction of 2,500,000 t/CO2 in the period 2006-2013, one year in advance. This achievement is the result of organisation-wide commitment to improving energy efficiency and reducing GHG emissions. However, and despite the success achieved, Repsol continues to advance its commitment to reducing GHG emissions.

Repsol continues to meet the objectives set out under the heading of energy saving and efficiency. Following certification of the Coruña and Puertollano refinery and continuing with our plan to implement energy management systems according to international standard ISO 50001, in the first half-year the company obtained certification of the Tarragona refinery and the Química Puertollano plants for producing Low Density Polyethylene (LDPE) and Ethylene Vinyl Acetate (EVA) respectively. These Energy Management Systems (EMS) allow energy consumption to be reduced thanks to the incorporation of all energy-related management activities in a continuous improvement cycle.