REPSOL Group | **2018** Management Report First Half

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

ABOUT THIS REPORT

The Repsol[1] Group's **Interim Management Report** must be read together with the 2017 Consolidated Management Report. In addition to this report, Repsol publishes condensed interim consolidated financial statements[2] for the first half of 2018 for the Group (hereinafter, interim financial statements of the first half of 2018). Both reports have been approved by the Board of Directors of Repsol, S.A. at its meeting of July 25, 2018.

The **financial information** contained in this document, unless otherwise indicated, has been produced in line with the Group's reporting model set out in Note 2.3 "*Segment reporting* of the interim financial statements for the first half of 2018. Some of the financial indicators and ratios are classified as Alternative Performance Measures (APMs) in accordance with *European Securities Markets Authority (ESMA)* guidelines. Appendix II, "*Alternative Performance Measures*", includes the reconciliation between the adjusted figures and those corresponding to IFRS-EU financial information, also available on www.repsol.com.

The **non-financial information** corresponding to sustainability indicators contained in this document have been calculated according to corporate rules that specify the criteria and common methodology to be applied to each topic.

The **forward-looking information** contained in this document reflects the plans, forecasts or estimates of the Group's managers at the date of approval. They are based on assumptions considered reasonable; however, this forward-looking information must not be interpreted as a guarantee of future performance. These plans, forecasts or estimates are subject to risks and uncertainties that may mean that the Group's future performance may not necessarily reflect initial expectations.

OUR VISION AND ACTION PRINCIPLES:

Repsol's **vision** is to be a global energy company that, based on innovation, efficiency and respect, creates value sustainably to the benefit of society. Our **action principles are:**

VALUE CREATION / RESPECT/ EFFICIENCY/ FORESIGHT

Further information at www.repsol.com.

[1] Hereinafter, the names "Repsol," "Repsol Group" or "the Company" are used interchangeably to refer to the company group consisting of Repsol, S.A. and its subsidiaries, associates and joint ventures.
[2] The interim financial statements of the first half of the year have been subject to a limited independent review by the Group's auditor.

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1. SUMMARY OF THE PERIOD

Strategic update

Once the objectives set out in the 2016-2020 Strategic Plan were reached early and following the sale of the stake in Gas Natural Fenosa[1], a **strategic update** was undertaken with a 2018-2020 horizon. The new strategy is focused on growth and creating value and is structured around three main pillars: i) growth in shareholder remuneration; ii) profitable growth of the business; (iii) and development of new businesses associated with the energy transition.

Results

The financial performance during the first half, in an **environment** with a sustained increase in crude oil prices and whose favorable impact has been partially offset by the weakness of the dollar compared to the euro, **net income** increased to €1,546 million (+46% over the same period of the previous year), and the **free cash flow** from operations amounted to €4,306 million (+357% compared to the first half of 2017) which has allowed the **net debt** to be reduced to €2,706 million (€4,771 million lower than the first half of 2017).

RESULTS FOR THE PERIOD *(million euros)*	1H 2018	1H 2017	Δ
Upstream	647	339	91%
Downstream	762	929	(18)%
Corporate and other	(277)	(253)	(9)%
Adjusted net income	**1,132**	**1,015**	**12%**
Inventory effect	202	(60)	437%
Special items	212	101	110%
Net income	**1,546**	**1,056**	**46%**

↑ 46%
Net income

Upstream results far exceed those of the first half of 2017 (91%), mainly attributable to the increase in realization prices of crude and gas, the increase in production in Libya and the organic growth projects (Trinidad and Tobago, UK, US-*Marcelus*, Malaysia and Algeria).

In **Downstream**, the strong results are less than those obtained in 2017, mainly due to the negative impact of the weaker dollar and due to lower results in Chemicals owing to a more adverse international environment and maintenance stoppages.

The results of ***Corporate and other*** show the continuity in the reduction in financing and Corporate costs, but are lower than those of the same period in 2017 due to the consolidation adjustments, which are included in this caption.

As a result of the foregoing, **adjusted net income**, which reflects ordinary income generated in the course of business operations, amounts to €1,132 million, which is 12% higher than in 2017.

The *inventory effect*, which reflects the impact of price changes on inventories, was up due to the increase in crude prices.

In terms of *special items* in the period (€212 million), the capital gain generated by the divestment in Gas Natural Fenosa, the extraordinary income due to the exchange rate and write-offs (in assets related to Venezuela) are worth particular mention.

€ 0.97
/share
Earnings
per share

In sum, the Group's **net income** in the first half of 2018 came to 1,546 million euros, up 46% on the same period in 2017, and net profit per share was €0.97.

The **EBITDA** of €3,811 million, is 23% higher than in 2017, driven mainly by a substantial improvement in results in *Upstream* and the strength of *Downstream*. The **cash flow from operations** in the first half

[1] Sale of the 20% stake in Gas Natural SDG, S.A. (currently denominated NaturgyEnergy Group, S.A., hereinafter “Naturgy” or “Naturgy group”), for a total price of €3,3816 million on May 18, 2018 (see section 2.2).

(€1,726 million) covered investments, interest payments and shareholder remuneration; **free cash flow** amounted to €4,306 million and includes the cash flow generated by the divestment of Naturgy.

↓64%
Net debt

The **net debt** at the end of the period came to €2,706 million, which represents a significant decrease compared to the first six months of 2017 (€7,477 million) and a leverage of 8%. The Group's **credit rating** has remained the same following the improvement achieved at the end of 2017.

Shareholder remuneration, equivalent to 0.388 euros per share[1] in January and 0.485 euros per share in July, implies an increase of 15% over the previous year. Shareholders, through the scheme known as "*Repsol Flexible Dividend*", have had the option of perceiving this remuneration either in newly issued shares or in cash. The Annual General Meeting approved the reduction of capital through the redemption of treasury stock to offset the dilutive effect of the bonus share issues arranged in 2018 as part of the said scheme.

↑15%
Shareholder remuneration

Repsol **shares** have gained 14% during the first half of the year, outperforming both the Ibex-35 index and the average of the European oil & gas industry. Share performance was boosted by the recovery of the price of Brent crude, particularly from April onwards, and the progress made achieving strategic objectives.

↑14%
Share price revaluation

OTHER EVENTS DURING THE PERIOD

In ***Upstream***, highlights in the first six months of the year included three exploratory discoveries in Colombia and another in Russia, the start of gas production in the Bunga Pakma project in Malaysia, the start of the development of the Buckskin project in (US, the acquisition of a stake in the Visund production field in Norway, the start of phase I of the Akacias project in Columbia and the acquisition of new exploratory blocks in different tenders in Mexico, Brazil and Norway.

In ***Downstream***, an agreement worth €750 million was reached on June 27 for the purchase of Viesgo's unregulated businesses of **low-emissions electricity generation** (three hydroelectric power plants in the north of Spain and two combined cycle gas power stations in Cádiz and Zaragoza, with a joint generation capacity of 2,350 MW) in addition to its **gas and electricity commercialization** (750,000 customers). In **Mexico**, the first service stations were opened, which represents the start of a project, the goal of which is to open 200-250 service stations in the coming years.

Acquired
2,350 MW
Of low-emission electricity generation

Against the backdrop of an energy transition towards a low-emissions future that will limit the effects of **climate change**, in 2018 Repsol implemented improvement actions in its facilities that prevented 189 thousand tons in CO_2 emissions, thereby reducing energy consumption.

With respect to the **employee accident rate**, there were no deaths among either our own personnel or that of contractors and the **process security** indicator has improved by 58% compared to the 2017 figure.

0 fatalities
Own and contractors´ personnel

During the course of the half-year period, **three new Directors were appointed** (two of whom are independents), thus enhancing the knowledge and gender diversity of the Board of Directors.

[1] It corresponds to the commitment to purchase of free-allocation rights assumed by Repsol in the capital increase closed in January 2018.

MAIN FIGURES AND INDICATORS

Financial indicators [1]	1H 2018	1H 2017
Results		
Operating income	2,043	1,613
Adjusted net income	1,132	1,015
Net income	1,546	1,056
Earnings per share (€/share)	0.97	0.66
EBITDA	3,811	3,108
Investments	1,245	1,201
Capital employed [2]	33,864	34,461
ROACE (%)[3]	8.2	6.4
Cash and debt		
Cash flow from operations	1,726	2,175
Free cash flow	4,306	943
Net debt (ND)	2,706	7,477
ND / EBITDA (x times) [4]	0.36	1.20
ND / Capital employed (%)	8.0	19.9
Debt interest / EBITDA (%)	3.8	5.9
Shareholder remuneration		
Shareholder remuneration (€/share) [5]	0,388	0,335

Stock market indicators	1H 2018	1H 2017
Share price at period-end (€/share)	16.77	13.40
Period average share price (€/share)	15.44	14.28
Market capitalization at year-end (€ million)	26,094	20,052

Macroeconomic environment	1H 2018	1H 2017
Brent average ($/bbl)	70.6	51.7
WTI average ($/bbl)	65.5	50.0
Henry Hub average ($/MBtu)	2.9	3.3
Algonquin average ($/MBtu)	5.7	3.7
Exchange rate average ($/MBtu)	1.21	1.08

Our business performance [1]	1H 2018	1H 2017
Upstream		
Net daily hydrocarbon production (kboe/d)	724	685
Net daily liquids production (kbbl/d)	266	256
Net daily gas production (kboe/d)	458	429
Average crude oil realization price ($/bbl)	64.2	46.7
Average gas realization price	3.3	2.9
EBITDA	2,289	1,666
Adjusted net income	647	339
Investments	900	906
Downstream		
Distillation utilization Spanish Refining (%)	90.4	89.3
Conversion utilization Spanish Refining (%)	103.9	100.0
Refining margin indicator in Spain ($/Bbl)	6.9	6.6
Oil product sales (kt)	25,217	25,071
Petrochemical product sales (kt)	1,313	1,407
LPG sales (kt)	739	750
Gas sales in North America (TBtu)	258	266
EBITDA	1,649	1,518
Adjusted net income	762	929
Investments	325	279

Other indicators	1H 2018	1H 2017
People		
No. employees [6]	25,580	25,746
New employees [7]	1,830	1,476
Health and Environment		
Process safety (PSIR) [8]	0.26	0.62
Process safety (IFT) [9]	1.50	1.43
Annual CO_2 emissions reduction (Mt) [10]	0.189	0.149

(1) Where applicable, figure shown in million euros.
(2) Capital employed from continuing operations.
(3) ROACE has been annualized by extrapolating data for the period. It does not include discontinued operations.
(4) EBITDA has been annualized by extrapolating data for the period.
(5) Fixed price guaranteed by Repsol for the freely allocated rights awarded under the "Repsol Flexible Dividend" program (see Note 4.1) in the interim financial statements for the first half of 2018.
(6) Number of employees that belong to companies in which Repsol establishes people management policies and guidelines, irrespective of the type of contract (fixed, temporary, partially retired, etc.).
(7) Only fixed or temporary employees with no prior working relationship with the company are considered to be new hires. Some 37% of new employees in 2018 and 36% in 2017 had permanent contracts.
(8) Process Safety Incident Rate (PSIR): number of process safety incidents classified as TIER and TIER, according to the standard API Recommended Practices 754 (Second Edition – April 2016) Process Safety Performance Indicators for Refining and Petrochemical, accumulated in the period, per million work hours related to process activities. The 2017 figure corresponds to the annual amount.
(9) Integrated frequency total (IFT): total number of cases with personal consequences (fatal accidents, with loss of days, medical treatment and restricted work) accumulated over the year, per million work hours. The 2017 figure corresponds to the annual amount.
(10) Reduction of CO_2 compared with the baseline of 2010.

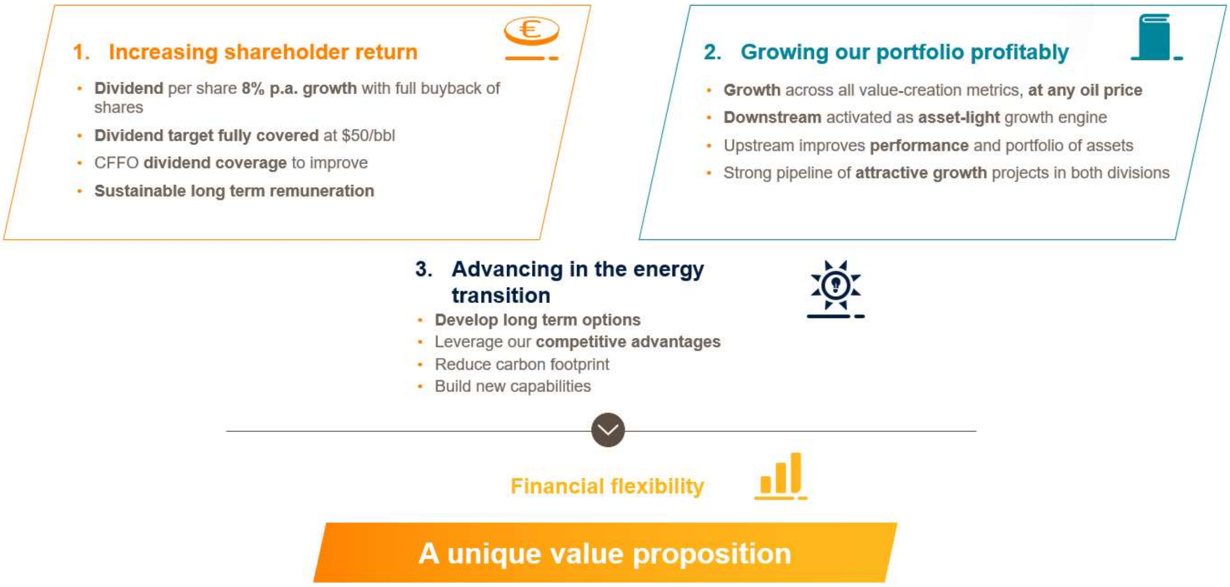
2. OUR COMPANY

2.1 STRATEGIC UPDATE 2018-2020

Having achieved all the objectives set out in the 2016-2020 Strategic Plan ahead of schedule, on July 6, 2018, an update to the Strategic Plan for the 2018-2020 periods was published (hereinafter "the Plan"). This renewed strategy targets growth and the creation of value in all scenarios; so, a price of 50 dollars per barrel of Brent for the entire period has been taken as a reference.

Growth and Value creation

The new strategy is structured around **three pillars**: growth in shareholder remuneration; profitable growth of the business (Upstream and Downstream); and development of new businesses associated with the energy transition.



The Plan may be self-financed at 50 dollars/barrel (Brent crude), a price at which the company maintains a sound financial position and flexibility.

1. Improvement in shareholder remuneration:

One of the keys of the Plan is to continue increasing shareholder remuneration. Specifically, an annualized average growth target of 8% has been set, employing the scrip dividend formula, in addition to reductions of capital, redeeming own shares, avoiding the dilution of those choosing to receive their remuneration in cash.

↑8%
Increase in shareholder remuneration

2. Profitable growth of our portfolio:

The company has two catalysts for growth to increase value and remunerate shareholders, its *Upstream* and *Downstream* businesses, which make it possible to establish growth objectives for 2018-2020 in a scenario of 50 dollars/barrel in terms of the operating cash flow of +1,900 million euros (+12% annualized) and earnings per share of +0.6 euros per share (+12% annualized). Upstream will seek greater returns and an improvement in the asset portfolio, whilst Downstream will consolidate the excellent performance seen in recent years and create new sources of growth and added value.

Upstream – Increase production and profitability

Following the integration of Talisman Energy Inc. (currently Repsol Oil&Gas Canada Inc.) and duplicating the size of Upstream, the company faces a period in which it will increase its production of hydrocarbons, obtain greater returns and optimize its asset portfolio.

The *Upstream* business is expected to invest approximately 8,000 million euros between 2018 and 2020. Around 60% of this sum will be allocated to growth and exploration projects, to increasing production and ensuring an ideal level of reserves in the medium and long term; furthermore, onshore projects and projects in shallow waters will be given priority, as here Repsol has a competitive advantage. In the short term, organic growth will concentrate on existing assets and will not require significant developments, these are important generators of cash flow and will make it possible to increase production, as is the case of Sagari (Peru), Marcellus, Eagle Ford and Buckskin (United States), Yme (Norway), Bunga Pakma and Kinabalu (Malaysia), Corridor (Indonesia), NC-115 and NC-186 (Libya) and Reggane (Algeria).

The target set of increasing production to 750,000 equivalent barrels of oil per day in 2020 (annualized growth of 2.6% per year) will be complemented by an active approach to portfolio management, as part of which the production of barrels will be replaced with other goals with a higher profit margin.

750 kboe/d
in 2020

The Plan targets a 50% increase in organic operating cash flow Upstream, to 3,000 million euros, in a linear scenario in which the price of Brent is 50 dollars per barrel.

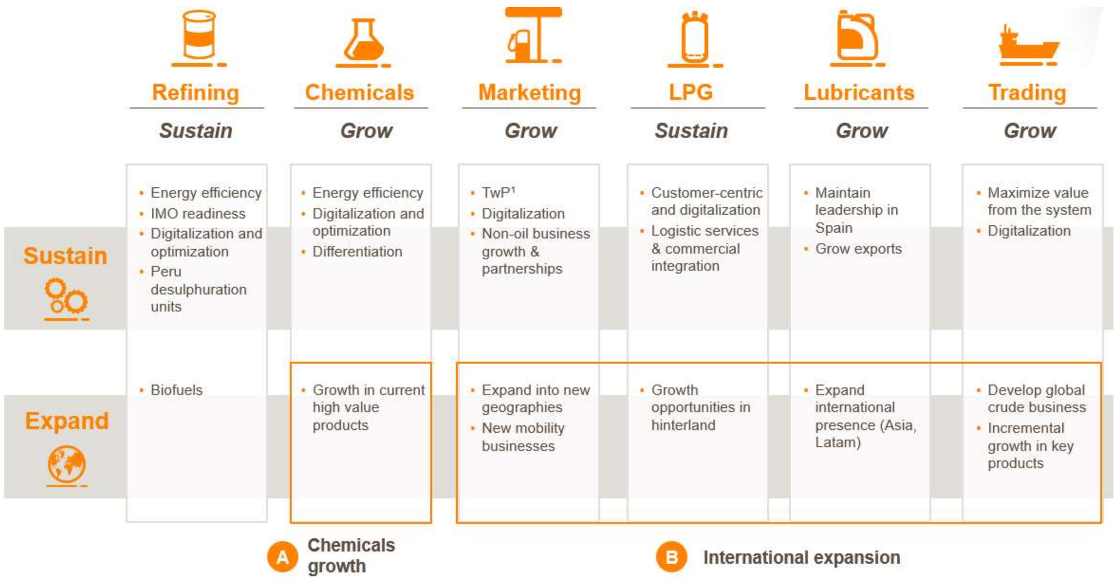
Furthermore, Upstream will implement a new efficiency and digitalization program in order to reach the free cash flow per year target of 1,000 million dollars by 2020.

Downstream – International expansion:

The Plan provides for areas such as Refining and Marketing to consolidate their position and harness the new fuel regulation for maritime transport (IMO), the increase in demand and new growth opportunities.

The Downstream business is expected to invest a total of 4,200 million prior to 2020, to be allocated to projects that pursue the international expansion of certain businesses (1,500 million euros) and the maintenance and improvement of key assets that ensure optimum performance (2,700 million euros).

€4,200
million
Investment
Downstream



(1) Transforming While Performing (TwP): operational excellence program.

International expansion includes the service station business, in markets like Mexico, where Repsol has opened 50 facilities in six months, and Peru, where the company now has more than 500 points of sale. In other businesses, such as lubricants and liquefied petroleum gases (LPG), growth in Asia and South America will be catalyzed, in terms of the former, in France and Morocco, in terms of the latter. Trading will be another of the Downstream areas that will be revitalized between 2018 and 2020, particularly as part of the development of a global crude oil business and the optimization of fleet operations.

Chemicals will also experience a boost, focusing on high-value products, with applications in high-demand and sectors and margins, where Repsol's objective is to position itself as one of the five top companies in the world in the segments in which we are most competitive, whether through organic or inorganic growth.

ROACE > 18%
Downstream
2018-2020

Repsol believes that the Downstream operating cash flow will increase by 700 million euros in 2020 compared to 2017, which entails an increase of 27% during the period and returns (ROACE) of more than 18% for the entire period.

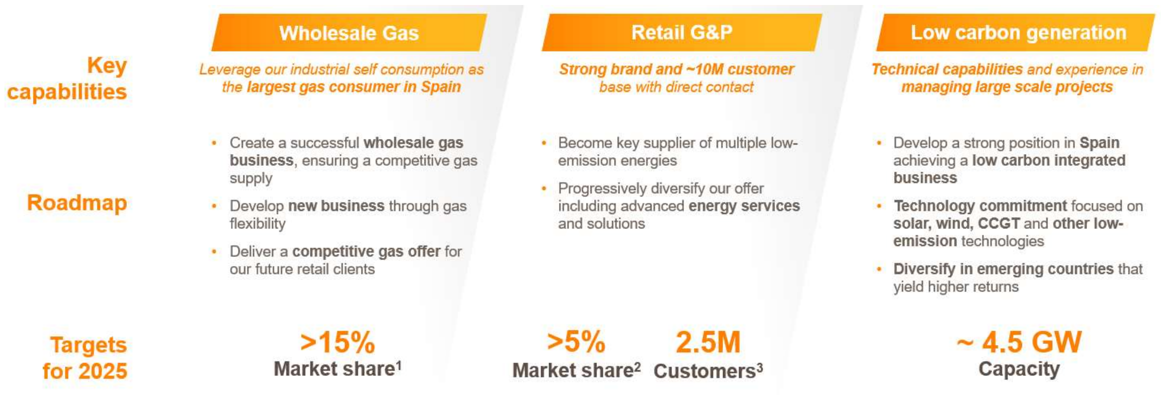
3. Energy transition – New opportunities:

The objective is to make progress with the energy transition and reduce emissions generated by Repsol operations and products, in line with the Company's commitment to fighting climate change adopted at the Paris Summit (COP21). Repsol has a set reducing carbon intensity by 3% and CO_2 emissions by 2.1 million metric tons as a goal for 2020.

In the coming years, the way in which energy is consumed will change, meaning the sector will evolve, driven by technology and digitalization. Following the update to the Plan, Repsol is getting head of the main trends, including the increase in demand for electricity and the key role that gas will play in the energy transition, developing new capacities and establishing a profitable position as a long-term operator in this segment.

↓2,1 Mt
CO_2 in 2020

Investments in this area will come to 2,500 million euros between 2018 and 2020, with a view to reaching 2.5 million retail gas and electricity customers in Spain by 2025, and the following roadmap:



€2.500 million

Investments in energy transition related businesses

(1) Market share in Spain including consumption at our refineries.
(2) Market share in Spain by number of customers.
(3) Not adjusted for dual customers.

Further information at www.repsol.com.

2.2 MAIN CHANGES IN THE GROUP'S ACTIVITIES[1]

Sale of the stake in Naturgy

On May 18, 2018, Repsol, S.A. sold its stake (20.072%) in Naturgy Energy Group, S.A., to Rioja Bidco Shareholdings, S.L.U. for the price of €3,816 million (equivalent to €19 per share), obtaining a capital gain of €344 million.

€3,816 million

For the sale of Naturgy

Agreement for the purchase of low-emission and electricity and gas distribution businesses from Viesgo

On June 27, an agreement was reached to purchase Viesgo's unregulated low-emission electricity generation businesses, in addition to its gas and electricity distributor, for the sum of €750 million.

The agreement entails the acquisition of low-emissions generation capacity of 2,350 megawatts (MW) and a portfolio of nearly 750,000 customers, consolidating our position as a multi-energy supplier, thus taking a decisive step forwards in fulfilling the roadmap for the energy transition defined in its Strategic Plan (see section 2.1).

The agreement entails the acquisition of hydroelectric power stations in the north of Spain with an installed capacity of 700 MW and significant potential for organic growth, in addition to two combined cycle gas power stations in Algeciras (Cádiz) and Escatrón (Zaragoza), with a total capacity of 1,650 MW. Viesgo's coal power plants were excluded from the transaction.

2,350 MW

Low-emission generation capacity

The combined gas cycles play a key role in the energy transition. Furthermore, hydroelectric installations are a renewable and efficient course of electricity and facilitate the storage of usable energy in the event of a shortfall in other renewable sources. Furthermore, with their operation, Repsol improves the efficiency of its energy consumption, which represents the main cost of its five industrial installations in Spain.

The customer portfolio, which allows Repsol to significantly increase its presence in the retail gas and electricity sector and strength its position as a multi-energy supplier, is distributed across Spain, mainly in Cantabria, Galicia, Andalucía, Asturias, Castilla y León and the Madrid Region.

[1] For further information, see Note 1.3 and Annex I of the interim consolidated financial statements for the first half of 2018.

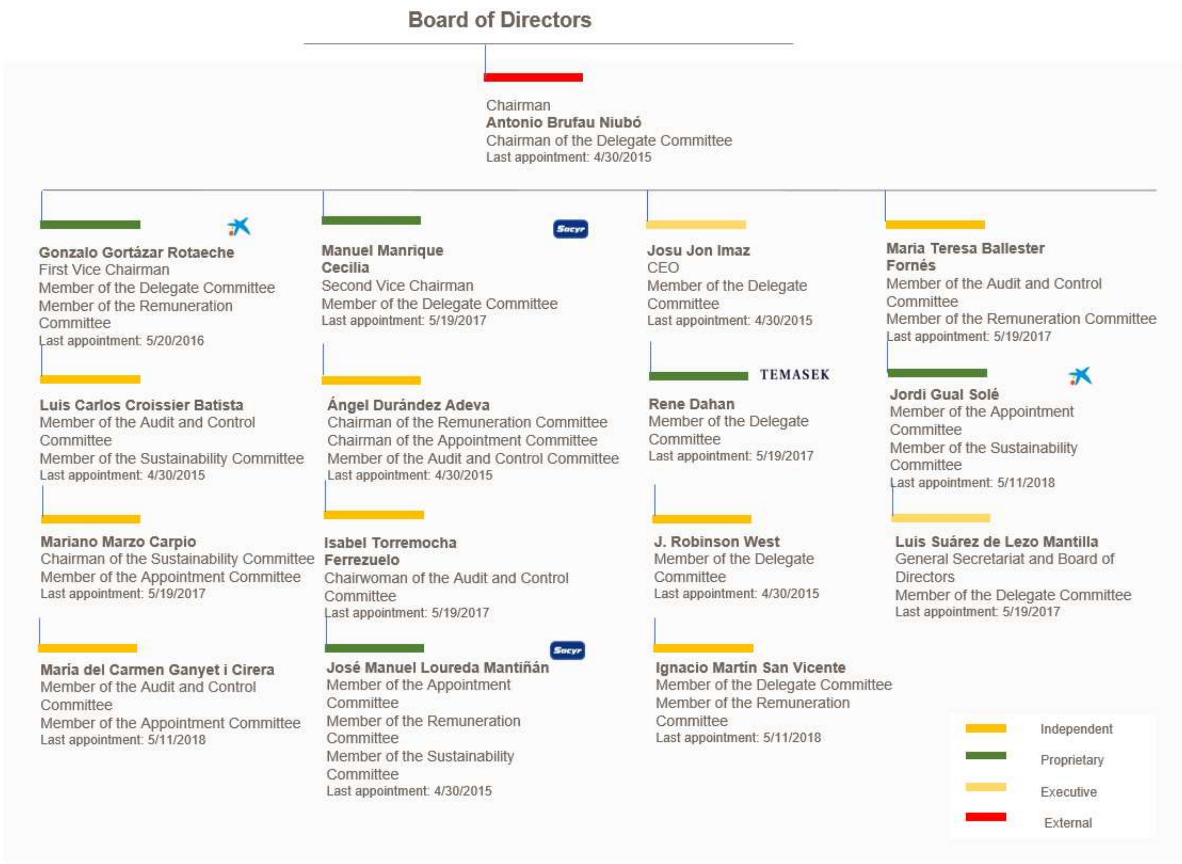
2.3 CORPORATE GOVERNANCE

Changes to the Board

The Annual General Meeting of Repsol, S.A., held on May 11, 2018, approved the ratification of the appointment via co-option and re-election of Mr. Jordi Gual Solé for a term of office of 4 years, and the appointment as independent external directors for a term of office of 4 years of Ms. María del Carmen Ganyet i Cirera and Mr. Ignacio Martín San Vicente to cover the vacancies generated by the end of the term of office of Mr. Artur Carulla Font and the departure of Mr. Mario Fernández Pelaz.

19%
Women in the Board

The composition of the Board of Directors (BoD) and its committees is currently as follows:



3. ENVIRONMENT

3.1 MACROECONOMIC ENVIRONMENT

The **global economy**, having experienced a notable upturn in 2017, growing 3.8%, has continued to experience this revitalization in the first half of 2018. According to estimates made by the International Monetary Fund (IMF) (World Economic Outlook April 2018), world growth will reach 3.9% in 2018.

↑3.9%
Global growth 2018

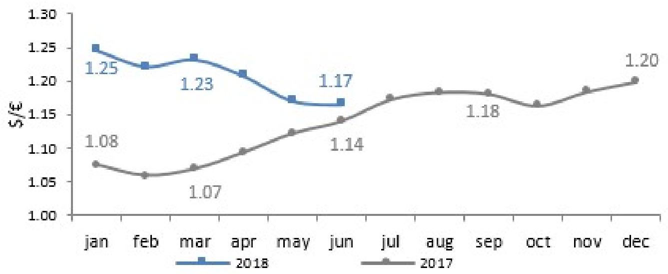
In any case, and in sequential terms, the speed of growth seen at the end of 2017 and start of 2018 has slowed somewhat in recent months. This moderation has been more notable in the Eurozone and Japan, whilst in the U.S., growth is higher than expected thanks to the fiscal stimulus. On the other hand, growth remains high in emerging countries, for the large part, with the recovery of countries that produce commodities worth particular note. However, some of the most vulnerable countries like Argentina and Turkey have experienced outflows of capital, which increase domestic interest rates, which will see their economies slow down as a result.

The strong revitalization of world activity and upturn in crude prices are driving inflation upwards, although they were at low levels and remain relatively contained. Against this backdrop, the normalization of monetary policy has maintained its course, without generating too much stability on the markets. The Federal Reserve of the United States has increased reference rates twice in the first half of the year and a further two increases are expected in the second half of 2018. Meanwhile, the European Central Bank has announced the end of its public debt purchase program "*quantitative easing*" by the end of the year.

In the first six months of 2018, the **depreciation of the dollar** intensified, dropping to 1.25 euros/dollar, given the expectation that the fiscal stimuli announced in the US would intensify the external imbalance further still (increase of twin deficits). However, since the start of April, the dollar has managed to undo some of its previous depreciation, stabilizing at around 1.16 euros/dollar, whilst growth in the Eurozone ceased to surprise and the interest rate differential took on a more significant role.

€ 1.17 /$
fx June closing 2018

Evolution of closing exchange rate (€/$)



3.2 ENERGY LANDSCAPE

Crude - Brent

In terms of the crude oil market, the first half of the year has been marked by the scarcity of the balance of supply and demand. The deficit in supply can be traced to different factors, including: i) the solid growth in world demand, at a pace of more than 1.5%; ii) high commitment to production cutbacks agreed between the OPEC and non-OPEC group of exporter nations at the end of 2016 (joint commitment of 1.8 million barrels/day); iii) the significant decline in important producers, such as Venezuela, Mexico and Angola; and iv) geopolitical tensions.

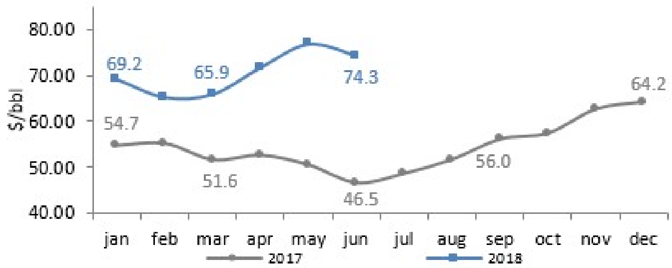
↑36%
Brent

At the end of the first half of the year, the average price of Brent crude came to 70.6 $/bl, 36% up on the average of the same period in 2017. In turn, WTI crude averaged out at 65.5 $/bl, with the differential between the two at 5.1 $/bl. In terms of the evolution of the Brent price, there was a notable difference between the first and second quarter of the year. Between January and March, the price remained stable between 65 and 70 $/bl, before peaking at 80 $/bl at the end of May; it has since stabilized between 75 and 80 $/bl.

The strength of demand in the first half of the year in addition to the production cutbacks agreed between the OPEC and non-OPEC group of exporter nations has over stressed the market. Countries such as Saudi Arabia and its Persian Gulf allies, have kept an iron grip on cutbacks, reducing production by more than agreed and the circumstances in countries like Venezuela, Mexico and Angola have intensified compliance with cutbacks. In total, compliance has been at around 130%.

On June 22, the OPEC underscored the need for countries to comply with the agreed percentage, without exceeding the cutbacks agreed upon. Concern on the market is that the decline in Venezuela will intensify and the decision by the U.S. to abandon the Iran nuclear deal and the reimposition of sanctions starting in November will increase the deficit in supply, leading to much higher prices and a decrease in demand, which would help prices relax.

Evolution of monthly average Brent price



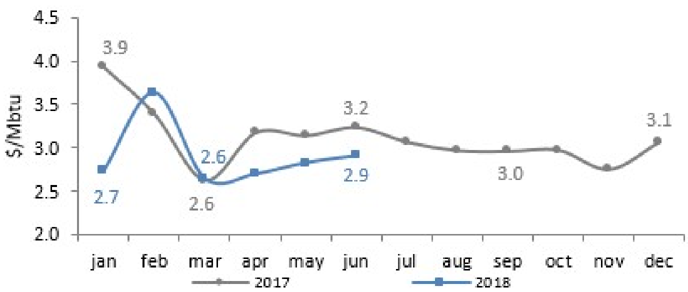
Natural Gas - Henry Hub

The Henry Hub natural gas price averaged out at 2.9 $/mmBtu in the first half of 2018, 11% down on the same period in 2017. This trend has occurred against a backdrop of an increase in dry gas production (+12%), with the balance of supply and demand remaining narrow. The increase in production has been accompanied by a similar increase in total demand in addition to a significant increase in exports of liquefied natural gas (+62%). Against this backdrop, the price has been affected by expectations that there will be an increase in the production of gas associated to oil production in light of an increase in the price of crude oil during the six-month period.

↓11%
Henry Hub

The 2017 balance adjustment was eased in the first half of 2018 in light of the increase in the production of domestic dry gas and a drop in internal demand (mainly residential/commercial, and electricity generation), as part of which the growth in exports (gas via pipeline and liquefied natural gas) served as a vital support.

Evolution of monthly average Henry Hub price



4. FINANCIAL PERFORMANCE AND SHAREHOLDER REMUNERATION

4.1 INCOME

€ Million	1H 2018	1H 2017	Δ
Upstream	647	339	308
Downstream	762	929	(167)
Corporate and other	(277)	(253)	(24)
Adjusted net income	**1,132**	**1,015**	**117**
Inventory effect	202	(60)	262
Special items	212	101	111
Net income	**1,546**	**1,056**	**490**

↑46%
Net income

↑12%
Adjusted net income

The results for the first half of 2018 (hereinafter 1H18), compared to the same period of 2017 (hereinafter, 1H17), occurred in a more favorable **environment** marked by some higher oil prices (Brent +36%, with a notable boost in the second quarter), lower gas prices (Henry Hub -11%) and a weaker dollar vs. the euro (€/$ 1.21 vs. 1.08 in 1H17). On the other hand, the indicator for the Refining margin remains at high levels (US$7/bbl) but the international indicators of the Chemical business margin are significantly lower as a result on the raise in Naphtha prices.

In the context, Repsol obtained an **adjusted net income** of €1,132 million (+12% compared to 1H17, driven by the notable improvement in the results of Upstream), which together with the capital gain generated by the divestment in Naturgy and the effect of the revaluation of inventories, yielded **net income** of €1,546 million (+46% compared to 1H17) and **free cash flow** of €4,306 euros (357% higher than 1H17). The six-month period ends with a **net debt** of €2,706 million (€4,771 million less than at the close of 1H17).

↑23%
EBITDA

The **EBITDA** amounted to €3,811 million, (+23% compared to 1H17), driven by the higher income in the *Upstream* segment.

	TOTAL	
EBITDA (€ Million)	1H 2018	1H 2017
Upstream	2,289	1,666
Downstream	1,649	1,518
Corporate and other	(127)	(76)
TOTAL	3,811	3,108

Upstream

Average **production** in the first half of 2018 came to 724 Kbep/d, is 6% higher than in the same period of 2017. The higher production is explained by higher activity in Libya, the incorporation of new wells in Trinidad and Tobago, the UK, USA-*Marcelus*, Algeria and Malaysia, and the contribution of assets acquired in Norway. (see section 5.1).

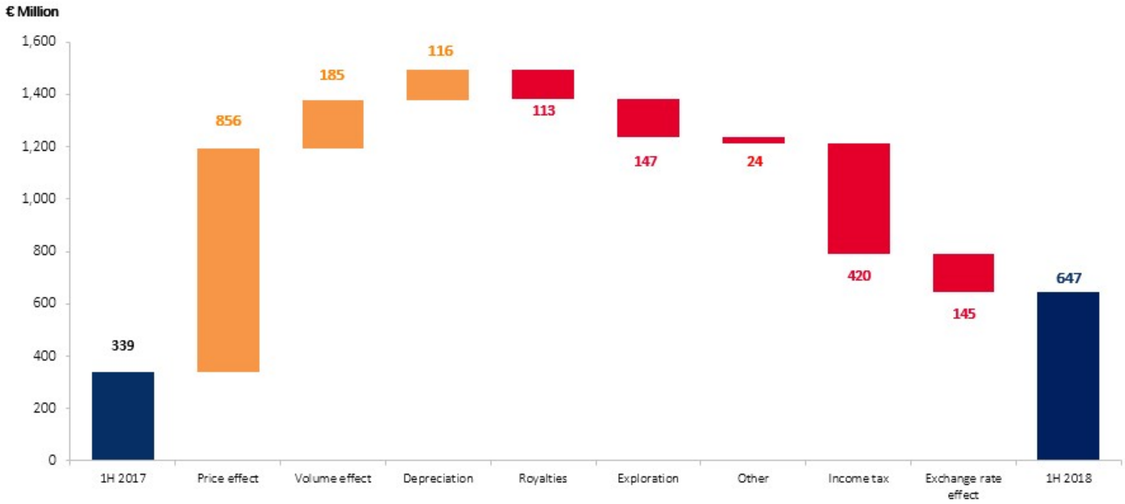
↑6%
Production

In terms of **exploration activity**, ten exploratory wells well were completed during the six-month period, of which three have been positive. (see section 5.1). In addition, an appraisal well was successfully completed in the period.

Adjusted net income in *Upstream* amounted to €647 million, well up on 1H17 (€339 million). This improvement was due to the increase in the prices of crude oil and gas (37% and 12%, respectively) and the higher volumes sold (mainly by Libya and the UK). These positive effects are partially offset by the higher taxes as a result of the improvement in operations, the negative impact of the exchange rate on account of the weakening of the dollar and the increase in exploration costs resulting from the amortization and depreciation of wells and investments with a slim probability of success. In addition, the impact on results of the new formula for calculating depreciation of productive assets must be taken into account (see Note 2.2.3 of the interim financial statements for the first half of 2018).

↑91%
Upstream income

Upstream adjusted net income variation



EBITDA for the Upstream segment came to €2,289 million, up 37% on the same period the previous year, driven by the increase in operating income and, notably, by the improvement in operations in Libya, UK, Norway, Brazil and Algeria.

Investments for the first half the year (€900 million) are in line with those of 1H17. Investments were undertaken mainly in production and/or development assets, mainly in the US, Canada, Trinidad and Tobago, Norway, Malaysia and Indonesia. One highlight was the acquisition of 7.7% of the *Visund* field in Norway (see Section 5.1).

€900 million

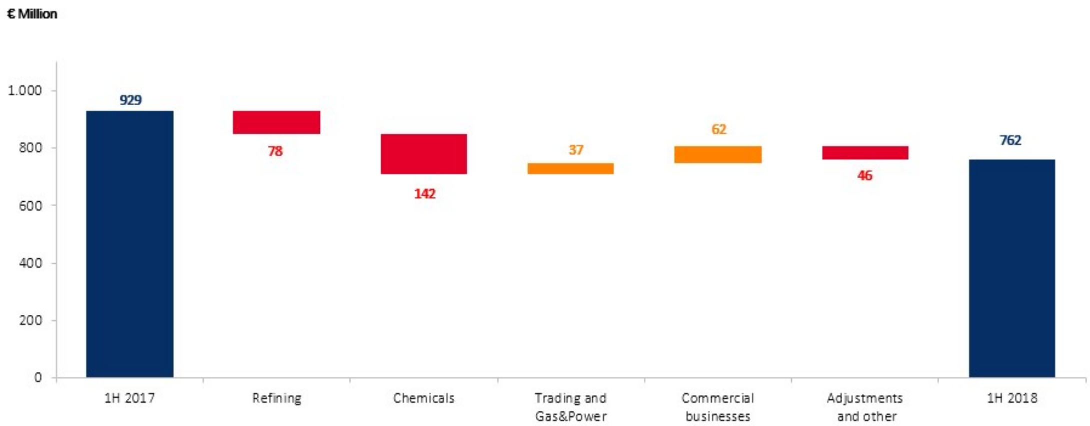
Investments Upstream

Downstream

Adjusted net income for the first six months of 2018 was €762 million, compared to €929 million in the first half of 2017.

↓18%
Downstream income

Downstream adjusted net income variation



Change in result due mainly to:

- In **Refining**, despite the increase in margins (more favorable international environment) and sales in Spain, results have been worse due to the impact of the weakening of the dollar, and reduction in margins in Peru, (affected by price mechanisms place in Peru and worse international environment).

- In **Chemicals**, the lower income is explained by the weakening of the international environment, mainly due to the increase in naphtha prices, as well as lower sales and higher variable costs as a result of operational incidences and maintenance stoppages.

- *Trading and Gas & Power* obtained better income, mainly from better margins in gas trading in North America.

- In **Commercial Businesses**, the improvement in results can mainly be attributed to *Marketing*, (driven by the improvement in the margins, maintaining the level of sales) and *LPG* (due to the lower margins of the regulated packaging business and the higher volumes sold as a result of lower temperatures).

The **EBITDA** in the Downstream came to €1,649 million, 9% up on the same period of the previous year.

↑9%
EBITDA
Downstream

Capital **expenditure** in the Downstream segment amounted to €325 million in the first half of 2018 (increased by 16% on the same period of 2017). The largest investments were undertaken to enhance energy efficiency, safety and the environment, and for multi-year shutdowns of refineries in Spain, of Chemical plants, and the remodeling of the gasoline block in the Pampilla refinery in Peru.

Corporate and other

Income for the half-year period amounted to €-277 million (compared to €-253 million in 1H17). The financial results improved due to lower debt cost and the better results in the management of positions (currency and treasury stock); corporate costs were also lower, despite the increase as a result of digitization projects. These positive effects have been offset by the negative impact of the adjustments for the elimination of intragroup transactions between the *Upstream* and *Downstream* segments, which have not yet been passed on to third parties.

The **inventory effect** amounted to €202 million, and was due to upward trend of crude oil and gas prices during the period.

Special items amounted to €212 million, mainly attributable to: i) the capital gain on the sale of the stake in Naturgy Energy Group, S.A. (€344 million), (ii) extraordinary write-offs in Venezuela[1] (for a net amount of €-451 million due to the recovery risk of loans, tax assets and investments) and iii) extraordinary results due to exchange rate differences in financing instruments (€398 million).

€ Million	1H 2018	1H 2017
Divestments	7	23
Workforce restructuring charges	(17)	(36)
Impairment	(123)	(26)
Provisions and other	(67)	30
Discontinued operations (see Note 2.2)	412	111
TOTAL	**212**	**102**

As a result of the foregoing, **net income** amounted to €1,546 million, up 46% on 2017.

PERFORMANCE INDICATORS	2018	2017
Return on average capital employed (ROACE) (%)	8.2 (1)	6.4
Earnings per share (€/share)	0.96	0.66

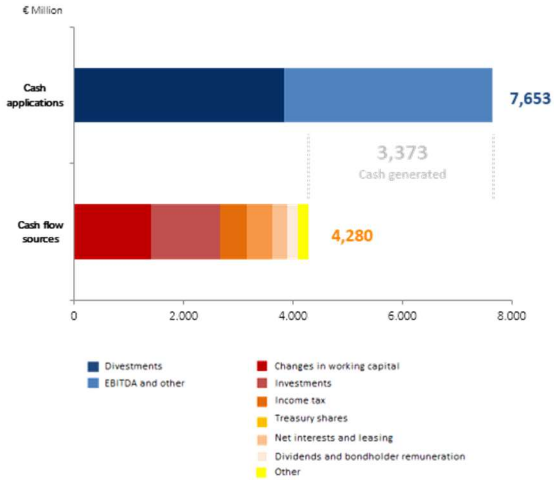
(1) Does not include discontinued operations (Naturgy). If included, ROACE would amount to 9%.

8.2%
ROACE

4.2 CASH FLOW

Free cash flow in 2018 amounted to €4,306 million, compared to €943 million in 2017, mainly attributable to the improvement in EBITDA and the divestment of Naturgy.

CASH FLOW *(€ Million)*	1H 2018	1H 2017
EBITDA	3,811	3,108
Changes in working capital	(1,414)	(387)
Dividends received	4	140
Income tax receipts/(payments)	(490)	(380)
Other receipts/(payments)	(185)	(306)
I. Cash flow from operations	1,726	2,175
Payments on investments	(1,258)	(1,264)
Proceeds from divestments	3,838	32
II. Investment flow	2,580	(1,232)
FREE CASH FLOW (I+II)	4,306	943
Dividends and other equity instruments	(196)	(345)
Net interest and leasing	(280)	(143)
Treasury shares	(457)	(183)
CASH GENERATED	3,373	272



Cash flow from operations (€1,726 million) was sufficient to cover investments and the payment of interest and dividends. However, it is less than that obtained in 1H17: the increase in EBITDA from business was offset by the larger amount of tax payable, the increase in working capital mainly in *Downstream*, (driven by the inventory increase as a result of price increases) and the absence of dividends payments from Naturgy.

€3,373 million
Cash generated

Cash flow from investment activities (€2,580 million) reflects the maintenance of investment levels of the previous year and is determined by the cash obtained on the divestment of Naturgy (3,816 million euros).

As a result of the foregoing, having covered payment of financing costs (€280 million), shareholder remuneration (€196 million) and the acquisition of treasury stock (see section 4.4), the **cash generated** came to €3,373 million.

4.3 FINANCIAL OVERVIEW

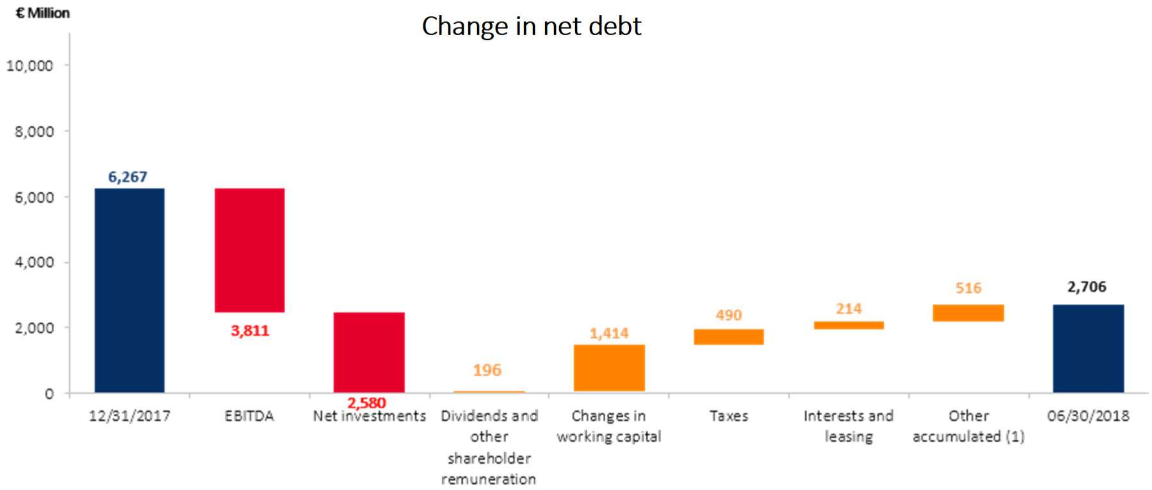
During the first half of 2018, in line with the commitment to strengthening the Group's financial structure, the range of measures that have made it possible to reduce debt have remained in place.

In line with its policy of financial prudence and its commitment to maintaining a high degree of liquidity, the funds held in cash by the Group at the end of the year and available credit lines amply exceed the maturity dates of its short-term debt.

Indebtedness

Net debt (€2,706 million at the end of the six-month period) is significantly lower than June 30, 2017 (€7,477 million) and at December 31, 2017 (€6,267 million) mainly attributable to the cash generated by businesses and cash obtained following the divestment of Naturgy.

↓€4,771 million
Debt reduction



(1) Mainly includes treasury stock transactions, the receipt of dividends, other operating activity payments and the effect of the exchange rate.

Main funding operations

During the first six months of 2018, there have been no issues of bonds or securities. The following cancellations or repurchases have taken place:

€10,472 million
Gross Debt

- In January 2018, ROGCI repurchased a bond maturing in February 2021 and a fixed annual coupon of 3.75% for a total of 251 million dollars.

- In February 2018, €750 million of fixed-annual 4.375% bonds issued by RIF in September 2012 within the EMTN Program were repaid at maturity.

As a result, he issues outstanding as at June 30, are as follows:

Bonds[1]

Issuer	Currency	Nominal	Coupon	Maturity [6]
Repsol International Finance, B.V.	€	600 [2]	Eur. 3M+70p.b.	2018
Repsol International Finance, B.V.	€	1,000 [3]	4.88	2019
	€	100	0.125	
Repsol International Finance, B.V.	€	1,200 [3]	2.63	2020
	€	600 [3]	2.13	
Repsol International Finance, B.V.	€	1,000 [3]	3.63	2021
Repsol International Finance, B.V.	€	500 [3]	0.50	2022
Repsol International Finance, B.V.	€	500 [3]	2.25	2023 and following
Repsol Oil&Gas Canada, Inc.	$	50 [4]	7.25	
Repsol International Finance, B.V.	€	100 [3]	5.38	
Repsol Oil&Gas Canada, Inc.	$	88 [4]	5.75	
Repsol Oil&Gas Canada, Inc.	$	102 [4]	5.85	
Repsol Oil&Gas Canada, Inc.	$	115 [4]	6.25	
Repsol Oil&Gas Canada, Inc.	$	57 [4]	5.50	
Repsol International Finance, B.V.	€	1,000 [5]	4.50	

(1) Does not include the perpetual subordinated bond issued by RIF on March 25, 2015 in the amount of 1,000 million euros, which is classified as an equity instrument.

(2) This issue was cancelled at maturity on July 6th, 2018.
(3) Issues of RIF under the "*Euro 10,000,000,000 Guaranteed Euro Medium Term Note Program* (EMTNs)" guaranteed by Repsol, S.A.
(4) Issues by Repsol Oil & Gas Canada, Inc. guaranteed by Repsol, S.A.
(5) Subordinated bond maturing at 60 years issued by RIF and guaranteed by Repsol, S.A. Coupon scheduled for March 25, 2025 and March 25, 2045.
(6) For more information on maturities, see Note 4.2 of the interim financial statements of the first of 2018.

Additionally, RIF holds a *Euro Commercial Paper* (ECP) Programme guaranteed by Repsol, S.A., with a limit up to 2,000 million euros; the outstanding balance at June 30, 2018 was 1,298 million euros.

The timetable for the **maturity of the gross debt** at June 30, 2018 is as follows:

Maturities	Gross Debt (€ Million)
2018	2,666
2019	1,536
2020	1,989
2021	1,158
2022	622
2023 and following	2,502
TOTAL	10,472

Financial prudence

Liquidity
2.42 times
Short-term debt maturity

Group liquidity, including committed and undrawn credit facilities, stood at €9,932 million at June 30, 2018, which is enough to cover its short-term debt maturities by a factor of 2.42. Repsol had undrawn credit lines amounting to €2,493 and €2,503 million at June 30, 2018 and December 31, 2017, respectively.

INDICATORS OF FINANCIAL POSITION	06/30/2018	06/30/2017
Net financial debt (€ million)	2,706	7,477
Net financial debt / EBITDA (x times)	0.36	1.20
Net financial debt / Total capital employed (%)	8.0	19.9
Liquidity / Gross short-term debt (x times)	2.42	1.91
Debt interest / EBITDA (%)	3.8	5.9

Credit rating

At present, the credit ratings assigned to Repsol, S.A. and ROGCI by the ratings agencies are as follows:

	STANDARD & POOR'S		MOODY'S		FITCH	
TERM	Repsol, S.A.	ROGCI	Repsol, S.A.	ROGCI	Repsol, S.A.	ROGCI
Long-term	BBB	BBB	Baa2	Baa2	BBB	BBB
Short-term	A-2	A-2	P-2	NR	F-3	F-3
Outlook	stable	stable	stable	stable	stable	stable
Most recent change	28/11/2017	28/11/2017	22/06/2017	22/06/2017	16/05/2017	16/05/2017

Treasury shares and own equity investments

At June 30, 2018, the share balance in treasury shares amounts to €18,262,941 million (including derivatives contracted by Repsol, S.A. with financial entities out of a notional total of 10 million shares) representing 1.14% of the share capital at that date. For further information, see Note 4.1 "*Treasury shares and own equity investments*" of the interim financial statements of the first half of 2018.

4.4 SHAREHOLDER REMUNERATION

Remuneration received by shareholders in the first half of 2018 as part of the "*Repsol Flexible Dividend*" scheme includes the amount of the irrevocable commitment to purchase free-of-charge allocation rights assumed by Repsol in the capital increase concluded in January 2018 (€0,388 gross per right). Thus, in the first half of 2018, Repsol paid out a gross total of €153 million to shareholders and distributed 29,068,912 new shares, worth €440 million, to those shareholders opting to take their dividend in the form of new company shares.

€0.388 /share
Shareholder remuneration

In addition, in July 2018, under the "*Repsol Flexible Dividend*" program, replacing what would have been the final dividend from 2017 profits, Repsol paid out €100 million in cash (€0,485 gross per right) to those shareholders opting to sell their bonus share rights back to the Company and delivered 39,708,771 shares, worth €655 million, to those opting to take their dividend in the form of new company shares.

The Annual General Meeting agreed on the reduction of capital by means of the redemption of own shares[1] in order to offset the dilutive effect of capital increases concluded in 2018 as part of the "*Repsol Flexible Dividend*" described above). The main effect of this reduction in capital will be an increase in earnings per share, to the benefit of shareholders.

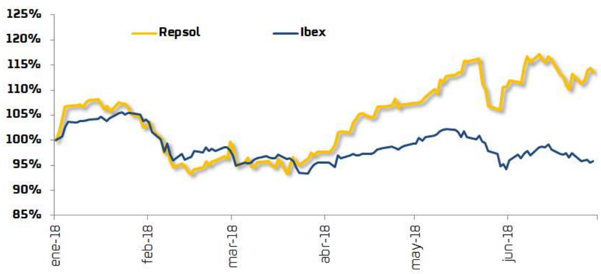
For additional information on the total remuneration received by shareholders and the aforementioned capital increases issued under the "*Repsol Flexible Dividend*" program, see section "*Share capital*" of Note 4.1 "*Equity*" of the interim financial statements for the first half of 2018.

↑14%
Share price revaluation 1H18

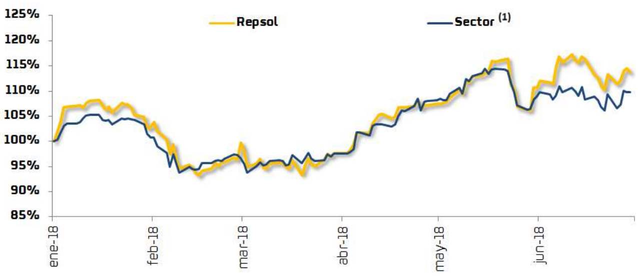
Our share price

The Repsol share price rose by 14% in the first half of 2018, outperforming both the Ibex 35 and the average of its peers in the European Oil & Gas sector.

Repsol share price vs. the Ibex 35



Repsol vs. the European oil sector



Source: Bloomberg
(1) European companies in the sector included: BP, Shell, Total, Eni, Equinor, Galp and OMV.

Share price was positively affected by the progress made achieving the Company's strategic objectives and the recovery of the price of Brent crude.

The price of Brent crude, which was around $67 a barrel at the start of the year, has increased constantly since April, ending the first six-month period at around $79.

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[1] Through the amortization of treasury stocks held at April 4, 2018 and the shares acquired as part of the share repurchase scheme and, as applicable, the clearing of derivatives taken out prior to April 4, 2018.

The Group's main stock market indicators in 2018 and 2017 are detailed below:

MAIN STOCK MARKET INDICATORS	1H 2018	1H 2017
Shareholder remuneration (€/share) (1)	0.388	0.335
Share price at period-end (2) (euros)	16.77	13.40
Period average share price (€)	15.44	14.28
Maximum price (€)	17.28	15.09
Minimum price (€)	13.75	13.40
Number of shares outstanding at end of the year (million)	1,556	1,496
Market capitalization at end of the year (million euros) (3)	26,094	20,052
Book value per share (euros) (4)	19.8	20.01

(1) For each period, shareholder remuneration includes the dividends paid and the fixed price guaranteed by Repsol for the bonus share rights awarded under the "Repsol Flexible Dividend" program.

(2) Share price at year-end in the continuous market of the Spanish stock exchanges.

(3) Year-end closing market price per share, times the number of shares in circulation

(4) Equity attributed to the parent/Number of shares outstanding at year-end.

5. OUR BUSINESS PERFORMANCE

5.1 UPSTREAM

Main operating figures

	1H 2018	1H 2017
Total net production of liquids (kbbl/d)	266	256
Total net daily gas production (Mboe/d)	458	429
Total net daily hydrocarbon production (Mboe/d)	724	685
Average crude oil realization price ($/bbl)	64.2	46.7
Average gas realization price ($/kscf)	3.3	2.9
Bonds, dry wells, and general and administration expenses [1]	223	141

[1] Gross investments during the period can be geographically

Our performance in 2018

€ Million	1H 2018	1H 2017	Δ
Operating income	1,236	503	733
Income tax	(594)	(176)	(418)
Investees and non-controlling interests	5	12	(7)
Adjusted net income [1]	**647**	**339**	**308**
Special items	(132)	11	(143)
Net income	**515**	**350**	**165**
Effective tax rate (%)	48	35	13
EBITDA	**2,289**	**1,666**	**623**
Investments	**900**	**906**	**(6)**

[1] Disclosure of the Adjusted net income by geographic area:

Geographic area	1H 2018	1H 2017	Δ
Europe, Africa and Brazil	358	141	217
Latin America – Caribbean	260	159	101
North America	115	(25)	140
Asia and Russia	132	74	58
Exploration and other	(218)	(10)	(208)
Adjusted net income	647	339	308

Main events of the six-month period (1/2):

- **Average production in Upstream** came to 724 Kboe/d in the first half of 2018, representing an increase of 6% (39 Kboe/d) compared to the same period in 2017. This increase is due in large part to the ramp-up of production in Libya, the commissioning of TROC and Juniper (Trinidad and Tobago), Shaw and Cayley (United Kingdom), Reggane (Algeria) and Kinabalu (Malaysia) and the start-up of production of new wells at Marcellus (US) in addition to the acquisition of the Visund field (Norway). The foregoing was offset by the sales of SK (Russia) and Ogan Komering (Indonesia), and a drop in demand from the Brazilian market in Bolivia, reduced production in Venezuela and a drop in gas sales in PM3 (Malaysia).

- **Exploratory campaign:** In the first half of the year, work completed on drilling 10 exploratory wells and 1 appraisal well, 4 with positive results (3 exploratory wells in Colombia and one appraisal well in Russia) and 7 with negative results (Algeria, Bolivia, U.S., Gabon, Malaysia and Norway). At year end of the period, 6 exploratory wells were still ongoing.

- Acquisition of **acreage**: 5 blocks in Mexico (3 in deep waters and 2 in shallow waters); 3 blocks in Round 15 in Brazil (2 blocks in the Campos Basin and one in the Santos Basin), 3 licenses in the Sea of Norway, 6 technical evaluation agreements in Peru (5 offshore in the Pisco Basin and 1 onshore in the Pachitea Basin) and one block allocated directly in Indonesia (onshore block in South East Jambi on the island of Sumatra).

- On January 25, the drilling operations envisaged in the development program and the commissioning of the **Buckskin** project in the deep waters in the **US Gulf of Mexico**, in Keathley Canyon, were announced. Repsol has a 22.5%; LIOG is the operating company. To perform development drilling at Buckskin, the company has decided to use the Seadrill West Neptune drilling platform, a cutting edge, sixth-generation, class DP3 vessel for drilling in deep waters.

Main events of the six-month period (2/2):

- On January 31, an agreement was reached in Norway with Total for the acquisition of the company's 7.7% stake in the Visund field. The field is located in the Norwegian waters of the North Sea. Operated by Equinor, the Visund field is a crude oil and gas field located 22 kilometers off the coast of Norway. In the first half of 2018, it reached 100% average daily production of 136,000 boe/d (more than 120,000 boe/d in 2017.

- On March 15, Repsol announced the presence of hydrocarbons in the Lorito-1 exploratory well, located in block CPO-9 (Ecopetrol: 55% WI and operator; Repsol: 45%) located in the Llanos Basin in Colombia. Following the tests run to test the results of the well, it was confirmed as a commercial discovery in the second quarter. Lorito-1 is part of the exploration project in block CPO-9.

- In Norway, in the first half of 2018, the country's authorities approved the Yme Field Development Plan (located in blocks PL316 and PL 316B in the Egersund Basin), submitted at the end of 2017 by the consortium led by Repsol (operator and 55% WI).

- In March 2018, official ratification was received in Bolivia of the extension, previously approved in December 2017 by the Bolivian Assembly, of the Caipipendi license (Margarita field) for a period of 10 years to 2041, plus 5 additional years depending on the volume of reserves to be incorporated.

- On April 17, the approval to start phase 1 of the Akacia project development plan, located in Block CPO-9 (Ecopetrol: 55% WI and operator; Repsol: 45%) in Colombia was announced. This plan includes the drilling of 19 producing wells. The expectations as part of this campaign are to attain production levels of 16,000 boe/d (including existing wells). During 2018, we expect to receive approval to continue with the full Akacias development plan and the drilling of an additional 78 wells, in addition to treatment facilities. The Akacias discovery occurred in 2010.

- In Peru, production began at a new well in the Sagari field in block 57 as part of the Development Plan for this asset in April. Production commenced in Sagari in November 2017 and it is located in the Ucayali-Madre de Dios Basin, one of the most prolific gas zones of the country, where Repsol is the operator, with an interest of 53.84%.

- On May 12, gas production started in the Bunga Pakma gas development project in the offshore block PM3 CAA in Malaysia (operated by Repsol with a 41.44% stakeholding).

- In June, an agreement was reached to sell Repsol's stakeholding in all assets in its Papua New Guinea portfolio (9 blocks: 4 exploratory wells expanding over 7,418 km^2 and 5 in the prior development phase expanding over 1,303 km2), subject to compliance with specific conditions precedent.

- In June, Repsol and Total reached an agreement with the Algerian national oil company, Sonatrach, to extend its Tin Fouye Tabankort (TFT) gas and condensate license in the Illizi Basin in Algeria.

- In the first half of 2018, 6 new wells were brought into production in the redevelopment project of the Kinabalu offshore field in Malaysia, in the western part of the Malay Basin. In October 2017, crude production began in this project, where Repsol is the operator with a 60% stakeholding.

5.2 DOWNSTREAM

Main figures

	1H 2018	1H 2017
Refining capacity (kbbl/d)	1,013	1,013
Europe (including the stake in ASESA)	896	896
Rest of world	117	117
Conversion rate in Spain (%)	63	63
Conversion utilization Spanish Refining (%)	103.9	100.0
Distillation utilization Spanish Refining (%)	90.4	89.3
Processed crude oil (million t)	22.4	22.6
Europe	20.1	19.8
Rest of world	2.3	2.8
Refining margin indicator ($/b)		
Spain	6.9	6.6
Peru	2.0	5.5
Number of service stations	4,759	4,712
Europe	4,182	4,246
Rest of world	577	466
Oil product sales (kt)	25,217	25,071
Europe	22,036	21,794
Rest of world	3,181	3,277
Petrochemical product sales (kt)	1,313	1,407
Europe	688	1,189
Rest of world	625	218
LPG sales (kt)	739	750
Europe	727	740
Rest of world	12	10
Gas sales in North America (Tbtu)	258	266
LNG regasified (100%) in Canaport (Tbtu)	12.5	9.8

Our performance in 2018

€ Million	1H 2018	1H 2017	Δ
Operating income	985	1,234	(250)
Income tax	(229)	(301)	74
Investees and non-controlling interests	6	(4)	9
Adjusted net income [1]	762	929	(167)
Inventory effect	202	(60)	262
Special items	(18)	22	(40)
Net income	946	891	55
Effective tax rate (%)	23	24	(1)
EBITDA	1,649	1,518	131
Investments	325	279	46

[1] Net adjusted income by geographic area:

Geographic area	1H 2018	1H 2017	Δ
Europe	723	883	(160)
Rest of world	39	46	7
Adjusted Net Income	762	929	(167)

Main events of the six-month period (1/2):

- During this six-month period, and taking advantage of the scheduled shutdowns at the Puertollano and Tarragona refineries, **improvements** were carried out regarding energy efficiency, security and Units´reliability.

- Repsol has announced a **collaboration with Google Cloud** for the launch of a project using big data and artificial intelligence to optimize the management of the Tarragona refinery with the use of the latest technology solutions of Google Cloud. The objective is to enhance the overall performance of refinery operations.

- The polyolefins chemical plant has achieved the **Food Safety Certification** (ISO FSSC22000) after a series of investments and changes to processes and procedures over recent years.

- The **first production of high-impact copolymers (TPOs)** from polypropylene has been successfully completed, which will be sold under the Repsol ImpactO brand, targeting the automotive market, mainly

- Repsol has completed the coordination and management of the **largest LNG bunkering operation** undertaken to date in Spain in Cartagena (425 m3 of LNG).

Main events of the six-month period (2/2):

- Repsol has included the El Corte Inglés card in the Repsol Waylet application, meaning that the 11 million users that have this card can now use it to pay at Repsol **service stations** and accumulate 4% of the overall amount consumed for their purchases at El Corte Inglés.

- The Chemicals business **has signed up to the Voluntary "*Plastics 2030*"** commitment that PlasticEurope presented to increase the circularity and efficiency of resources in products, following the publication of the European Commission's plastics strategy. It has also signed a technological partnership and supply contract with PEP Licensing Limited to develop a range of biodegradable polyolefins of fossil origin.

- A **70% stakeholding in Klikin** has been acquired; this *startup* has developed a digital platform for reserving, paying and managing promotions to connect local businesses to their customers, allowing Repsol to boost its Waylet mobile payment channel (facilitating the evolution towards a universal mobile method of payment).

- Repsol and Kia Motors Ibérica have **rolled out WiBLE** (Widely Accessible), a new *carsharing* operator that will promote sustainable movement in cities and the surrounding areas. The service, which began in July, will be operational in the second half of the year in Madrid, with a fleet of 500 hybrid Kia Niro cars.

- For the first time, from 2018 onwards, Jet1 will be sold directly to the **French Army**. This agreement represents a significant milestone, with a Spanish company having obtained a contract with one of the most demanding and prestigious institutions in France. The contract will run for a period of one year and can be renewed up to 4 years.

- The **first service stations in Mexico** were opened, which represents the start of a long-term project for Repsol, the goal of which is to reach a market share of 8-10% over the coming five years. As of 30 June, 50 service stations had been opened in the country from the 101 flagging agreements entered into. Another 150 points of sale are expected to be opened in the second half of the year to complete the 200 expected for this year.

- On February 21, Repsol signed a "*Head of Agreement*" with Pertamina **(Indonesia)**, establishing the roadmap to develop project engineering for the construction of a *Treated Distillate Aromatic Extract* plant, which produces extensor oils used in tires.

- In June, Repsol reached an **agreement to purchase Viesgo's unregulated low-emissions electricity generation business** (hydroelectric plants and combined-cycle gas plants), in addition to its gas and electricity distributor Hydroelectric plants and combined cycle plants), for further information, see section 2.2.

- Repsol received the **award for best European polypropylene producer** from the transformer association European Plastics Association (EuPC). This is the third consecutive year that customers have given this award to Repsol, as the company received the award for high-density polyethylene in 2016 and 2017.

5.3 CORPORATE

Our financial performance

€ Million	1H 2018	1H 2017	Δ
Corporate and adjustments	(178)	(124)	(53)
Financial result	(175)	(229)	55
Income tax	77	101	(45)
Investees and non-controlling interests	(1)	(1)	(1)
Adjusted net income	**(277)**	**(253)**	**(42)**
Special items	362	68	517
Net income	**85**	**(185)**	**517**
Effective tax rate (%)	22	29	(16)
EBITDA	**(127)**	**(76)**	**(51)**
Investments	**20**	**16**	**4**

Main events of the six-month period:

- The **Annual General Meeting** was held on May 11.
- All of the shares held in **Naturgy Energy Group, S.A.** were sold to Rioja Bidco Shareholdings, S.L.U. in May, representing 20.072% of the share Capital, amounting to 3,816 million euros (see section 2.2)
- The update to the **Strategic Plan 2016-2020** was published in June (see section 2.1).

6. SUSTAINABILITY

Main events of the semester

- Global Sustainability Plan

The Global Sustainability Plan has been reviewed and the yearly actions to reach the targets defined for 2020 have been approved.

- Climate change:

In April, Repsol signed up to the Task Force on Climate-related Financial Disclosure (TCFD), which promotes the Financial Stability Board (FSB), the objective of which is transparency in terms of climate change-related risks.

In June 2018, Repsol has published the first Report on the "green" bond issued in May 2017, whose funds are dedicated to refinancing and financing projects that seek to prevent greenhouse gas emissions as part of refining and chemical activities in Spain and Portugal. The information is available at www.repsol.com.

- People and diversity:

The changes to the Board of Directors (see section 2.3) have increased the representation of women on the Board of Directors from 13.3% to 18.8%. The 2020 target indicated in the Global Sustainability Plan is to increase the representation of women on the Board of Directors and leadership positions to 30%.

In the first six months of 2018, 1,830 new hires were contracted (24% more than in 1H17), of which 37% were under permanent contracts, reaching a total headcount of 25,580 employees at June 30.

In collective bargaining, following the signing in November 2017 of the 9th Framework Agreement for the majority of the Group companies in Spaoin, collective bargaining agreements were signed for several of the main companies in Spain (Repsol, S.A., Repsol Petróleo, S.A, Repsol Química S.A, Repsol Butano S.A., Repsol Trading, S.A., Repsol Lubricantes y Especialidades, S.A.).

- Operational safety:

There were no deaths among either our own personnel or that of contractors in the first half of 2018.

Personal safety performance as measured by the Total Frequency Rate (TFR) increased by 5% on the 2017 indicator, with an increase in the number of incidents with days lost of 14% and a decrease in hours worked of 4%.

The accident rate of processes as measured by the PSIR $TIER_1$ + $TIER_2$ decreased by 58% compared to the 2017 indicator. Incidents classified as $TIER_1$ occurred in Canada, Malaysia and in the Cartagena refinery.

- Responsible tax policy:

In the first half of 2018, Repsol paid more than €6,000 million in taxes and similar public charges, having filed more than 21,000 tax returns.

Repsol is voluntarily taking part in a pilot program, together with the Tax administrations of 5 OECD countries, sponsored by the OECD for multilateral and joint research and evaluation of the tax risks of multi-national companies, the International Compliance Assurance Program (ICAP).

- Ethics and compliance:

During the six-month period, work continued to disseminate the Ethics and Conduct Code, including a new course that seeks to strength previously-acquired knowledge, obtain a higher level of understanding concerning behavior expected of employees in addition to developing on other related matters, such as internal regulations or the prevention of harassment.

APPENDIX I: RISKS

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. The risks facing the Group in the second half of 2018 are detailed in Appendix II, *"Risk Factors"* of the Management Report which accompanied the 2017 Financial Statements. Such risks, which remain at the publication of this report, are updated with the information presented below:

Uncertainty in the current economic context

In the current environment, although global growth remains strong, downside risks would appear to be stronger than in prior months.

First, the threat of trade war has gained in prominence (tariff increases now in effect still have a limited impact, but the threats of new, higher tariffs on a much larger number of products could affect global growth). Further, a protectionist turn would not only reduce international trade, but also affect cross-border investment flows and confidence, which could amplify the final effect and make it more long-lasting. In any event, there is still time for ongoing negotiations to bear fruit.

In addition, the recent strengthening of the dollar and the normalization of US monetary policy is having an impact on less accommodative global financial conditions and problems for some emerging countries that rely heavily on external financing, like Argentina and Turkey.

Lastly, the plans of the new government in Italy, which include a sharp increase in borrowing and a clear anti-immigration stance, could cause tensions in Europe.

With regard to oil prices, the scenario envisaged by the International Energy Agency is of a market at equilibrium for the rest of the year and a large part of next year, which would keep prices at or near current prices. In associated risks, lower-than-expected demand or substantially higher production from countries like Saudi Arabia or Russia could depress prices. However, the biggest risks identified by the market are now the significant decline of Venezuela, the re-imposition of sanctions on Iran and the saturation of the capacity of Permian output pipelines in Texas, which could curtail the boom seen in the region in recent years, and which is not expected to be resolved until the second half of 2019.

Location of reservices (geopolitical risks)

See Note 4.8 "*Geopolitical Risks*" of the interim consolidated financial statements for the first half of 2018.

The Repsol Group is exposed to administrative, judicial and arbitration proceedings.

See Notes 4.6 "*Tax Situation*" and 4.7 "*Legal Risks*" of the interim consolidated financial statements for the first half of 2018.

APPENDIX II: ALTERNATIVE PERFORMANCE MEASURES

Repsol's financial information contains indicators and measures prepared in accordance with applicable financial information regulations, as well as other measures prepared in accordance with the Group's Reporting Model [1]defined as Alternative Performance Measures (APMs). APMs are measures which are "*adjusted*" compared to those presented as IFRS-EU or with Supplementary Information on Oil and Gas Exploration and Production Activities[2], and the reader should therefore consider them in addition to, but not instead of, the latter.

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

For further information, see www.repsol.com.

1. Financial performance measures

Adjusted net income

Adjusted net income is the key financial performance measure which Management (the E&P Corporate Executive Committee, and Downstream Executive Committee) consults when making decisions in accordance with IFRS 8 "*Operating segments*".

Repsol presents its segment results including joint ventures or other companies which are jointly managed in accordance with the Group's investment percentage, considering its operational and economic indicators within the same perspective and degree of detail as those for companies consolidated under the full consolidation method. Thus, the Group considers that the nature of its businesses and the way in which results are analyzed for decision-making purposes is adequately reflected.

Adjusted net income is calculated as the ***Result from continuing operations at*** *Current Cost of Supply* (or CCS) [3]net of taxes and the result from investments minority interests. It does not include certain income and expense (***Special Items***), and the ***Inventory effect***. ***Financial income*** corresponds to the adjusted net income under "*Corporate and other*."

Adjusted net income is a useful APM for investors in order to be able to evaluate the performance of operating segments while permitting increased comparability with Oil & Gas sector companies using different inventory measurement methods (see the following section).

[1] See Note 2.3 "Segment reporting" of the condensed interim consolidated financial statements for the first half of 2018.

[2] The hydrocarbon Exploration and Production information, which is compiled and disclosed by the Group annually, is prepared in accordance with the principles generally accepted in the oil and gas industry and, specifically, is based on the disclosure criteria outlined in Topic 932 issued by the Financial Accounting Standards Board (FASB).

[3] The Current Cost of Supply (CCS) is commonly used in this industry to present the results of Downstream businesses which must work with huge inventories subject to continual price fluctuations is not an accepted European accounting regulation, yet does enable the comparability with other sector companies as well as monitoring businesses independently of the impact of price variations on their inventories. As a result of the foregoing, Net Income does not include the so-called Inventory Effect. This measurement is equivalent to the EBIT at CCS.

Inventory effect

This is the difference between the Result from continuing operations at CCS and the result calculated as the average weighted cost (AWC, which is an inventory valuation method used by the company to determine its results in accordance with European accounting regulations). It only affects the Downstream segment, in that for the Net income from continuing operations at CCS, the cost of volume sold during the period is determined in accordance with supply costs, and production during the year. Apart from the above effect, the ***inventory effect*** includes other adjustments to the valuation of inventories (write-offs, economic hedges) and is presented net of taxes and minority interests. Repsol management considers that this measure is useful for investors, considering the significant variations arising in the prices of inventory between periods.

The AWC is a generally-accepted European accounting method which measures inventories, in that it contemplates purchase prices and historic production costs, valuing inventory at the lower between said cost and its market value.

Special items

Significant items of which separate presentation is considered convenient to easily monitor the ordinary management of business operation. It includes capital gains/losses arising from divestitures, workforce restructuring costs, impairment, and provisions for risks and expenses and others. Special items are presented net of taxes and minority interests.

During the period, a change was made in the form in which results arising from exchange rate changes on tax positions in a currency other than the functional currency are presented. Such results are now show in special items in order to facilitate monitoring of business results and align ourselves with best practices of the sector. The comparative figures of the first half of 2017 have not been restated owing to their immateriality.

Section 4.1 "*Results*" of this document, includes *Special Items* accumulated in the first half of 2018 and 2017. Those of the second quarter of 2018 are shown below, in addition to those of the first quarter, which have been restated as a result of the change mentioned above:

	Q1		Q2	
Million euros	**2018**	**2017**	**2018**	**2017**
Divestments	2	19	5	5
Workforce restructuring charges	(2)	(3)	(15)	(34)
Impairment	(2)	(28)	(121)	2
Provisions and other [1]	(30)	(12)	(37)	41
Discontinued operations (see section 2.2)	68	60	344	51
TOTAL	**36**	**36**	**176**	**66**

[1] Includes the exchange rate effect on tax positions of currency other than the functional currency.

The following is a reconciliation of the Adjusted Income under the Group's reporting model with the Income prepared according to IFRS-EU:

First half[3]

	ADJUSTMENTS											
	Adjusted Result		Joint ventures reclassification		Special items		Inventory effect[2]		Total Adjustments		EU-IFRS profit/loss	
Million euros	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income	2,043	1,613[1]	(286)	(221)	(242)	(49)	282	(86)	(246)	(356)	1,797	1,257
Financial result	(175)	(229)	60	39	146	5		-	206	44	31	(185)
Net income from equity affiliates using the equity method	21	24	172	88		-		-	172	88	193	112
Earnings before tax	**1,889**	**1,408**	**(54)**	**(94)**	**(96)**	**(44)**	**282**	**(86)**	**132**	**(224)**	**2,021**	**1,184**
Income tax	(746)	(376)	54	94	(104)	34	(72)	22	(122)	150	(868)	(226)
Profit from continuing operations	**1,143**	**1,032**	**-**	**-**	**(200)**	**(10)**	**210**	**(64)**	**10**	**(74)**	**1,153**	**958**
Income attributed to minority interests	(11)	(17)	-	-	-	-	(8)	4	(8)	4	(19)	(13)
Net income from continuing activities attributable to the parent	**1,132**	**1,015**	**-**	**-**	**(200)**	**(10)**	**202**	**(60)**	**2**	**(70)**	**1,134**	**945**
Profit from discontinued operations	-	-		-	412	111	-	-	412	111	412	111
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY	**1,132**	**1,015**		**-**	**212**	**101**	**202**	**(60)**	**414**	**41**	**1,546**	**1,056**

[1] Income from continuing operations at current cost of supply (CCS).
[2] The inventory effect represents an adjustment to "*Supplies*" and "*Changes in inventory of finished goods and work in progress*" on the income statement under IFRS-EU.
[3] The figures for the first half of 2017 have been restated owing to the sale of the stake in Naturgy Energy Group, S.A. (see Note 2 of the consolidated interim financial statements of the first half of 2018).

Second quarter[3]

	ADJUSTMENTS											
	Adjusted Result		Joint ventures reclassification		Special items		Inventory effect[2]		Total Adjustments		EU-IFRS profit/loss	
Million euros	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income	986 [1]	671 [1]	(106)	(96)	(173)	37	294	(199)	15	(258)	1,001	413
Financial result	(61)	(74)	20	8	153	1	-	-	173	9	112	(65)
Net income from equity affiliates using the equity method	10	11	45	21	-	-	-	-	45	21	55	32
Earnings before tax	**935**	**608**	**(41)**	**(67)**	**(20)**	**38**	**294**	**(199)**	**233**	**(228)**	**1,168**	**380**
Income tax	(380)	(154)	41	67	(148)	(23)	(75)	50	(182)	94	(562)	(60)
Profit from continuing operations	**522**	**454**	**-**	**-**	**(168)**	**15**	**219**	**(149)**	**51**	**(134)**	**606**	**320**
Income attributed to minority interests	(6)	(9)	-	-	-	-	(8)	5	(8)	5	(14)	(4)
Net income from continuing activities attributable to the parent	**549**	**445**	**-**	**-**	**(168)**	**15**	**211**	**(144)**	**43**	**(129)**	**592**	**316**
Profit from discontinued operations	-	-	-	-	344	51	-	-	344	51	344	51
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY	**549**	**445**	**-**	**-**	**176**	**66**	**211**	**(144)**	**387**	**(78)**	**936**	**367**

[1] Income from continuing operations at current cost of supply (CCS).
[2] The inventory effect represents an adjustment to "*Supplies*" and "*Changes in inventory of finished goods and work in progress*" on the income statement under IFRS-EU.
[4] The figures for the first half of 2017 have been restated owing to the sale of the stake in Naturgy Energy Group, S.A. (see Note 2 of the consolidated interim financial statements of the first half of 2018).

	First quarter [3] [4]											
			ADJUSTMENTS									
	Adjusted income		Joint ventures reclassification		Special items		Inventory effect[2]		Total Adjustments		EU-IFRS profit/loss	
Million euros	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income	1,057[1]	942[1]	(180)	(125)	(69)	(86)	(12)	113	(261)	(98)	796	844
Financial result	(114)	(155)	40	31	(7)	4	-	-	33	35	(81)	(120)
Net income from equity affiliates using the equity method	11	13	127	67	-	-	-	-	127	67	138	80
Earnings before tax	**954**	**800**	**(13)**	**(27)**	**(76)**	**(82)**	**(12)**	**113**	**(101)**	**4**	**853**	**804**
Income tax	(333)	(222)	13	27	11	57	3	(28)	27	56	(306)	(166)
Net income from continuing operations	**621**	**578**	**-**	**-**	**(65)**	**(25)**	**(9)**	**85**	**(74)**	**60**	**547**	**638**
Income attributed to minority interests	(5)	(8)	-	-	-	-	-	(1)	-	(1)	(5)	(9)
Net income from continuing activities attributable to the parent	**616**	**570**	**-**	**-**	**(65)**	**(25)**	**(9)**	**84**	**(74)**	**59**	**542**	**629**
Profit from discontinued operations	-	-	-	-	68	60	-	-	68	60	68	60
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY	**616**	**570**	**-**	**-**	**3**	**35**	**(9)**	**84**	**(6)**	**119**	**610**	**689**

[1] Income from continuing operations at current cost of supply (CCS).
[2] The inventory effect represents an adjustment to "*Consumption of raw materials and other consumables*" and "*Changes in inventory of finished goods and work in progress" on the statement of profit or loss under IFRS-EU.*
[3] The figures for the first quarter of 2018 have been restated owing to the change in the presentation of the changes in the exchange rate on tax positions indicated in Special Items heading in this section.
[4] The figures for the first quarter of 2017 have been restated owing to the sale of the stake in Naturgy Energy Group, S.A. (see Note 2 of the consolidated interim financial statements of the first half of 2018)

EBITDA:

EBITDA is defined as "*Earnings Before Interest, Taxes, Depreciation, and Amortization*," and is a financial indicator which determines the operating margin of a company prior to deducting interest, taxes, impairments, restructuring costs, and amortization. Since it does not include financial and tax indicators or accounting expenses not involving cash outflow, it is used by Management to evaluate the company's results over time, thereby making comparisons with other *Oil & Gas* sector companies a mare straightforward exercise.

EBITDA is calculated as Operating Income + Amortization + Impairments + Restructuring costs as well as other items which do not represent cash entry or outflows from transactions (capital gains/losses from divestitures, provisions, etc.). Operating income corresponds to the result from continuing operations at average weighted average costs (AWC). In cases in which the ***Income from continuing operations*** **at Current Cost of Supply** (CCS) is used, it is called *EBITDA at CCS.*

	First half							
	Group Reporting Model		Joint ventures reclassification and others		Inventory effect		IFRS-EU [1]	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	2,289	1,666	(858)	(642)	-	-	1,431	1,024
Downstream	1,649	1,518	(4)	(5)	-	-	1,645	1,513
Corporate and other	(127)	(76)	54	-	-	-	(73)	(76)
EBITDA	3,811	3,108	(808)	(647)	-	-	3,003	2,461
EBITDA CCS	3,529	3,194	(808)	(647)	282	(86)	3,003	2,461

[1] Corresponds to "*Profit before tax*" and "*Result adjustments*" on the consolidated Statement of Cash Flows prepared under IFRS-EU.

	Second quarter							
	Group Reporting Model		Joint ventures reclassification and others		Inventory effect		IFRS-EU [(1)]	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	1,188	745	(424)	(251)	-	-	764	494
Downstream	916	557	(3)	(3)	-	-	913	554
Corporate and other	(97)	(38)	41	(8)	-	-	(56)	(46)
EBITDA	**2,007**	**1,264**	**(386)**	**(262)**	**-**	**-**	**1,621**	**1,002**
EBITDA CCS	**1,713**	**1,463**	**(386)**	**(262)**	**294**	**(199)**	**1,621**	**1,002**

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

	First quarter [(2)]							
	Group Reporting Model		Joint ventures reclassification and others		Inventory effect		Statement of Cash Flows under IFRS-EU[(1)]	
Million euros	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	1,101	921	(434)	(391)	-	-	667	530
Downstream	733	961	(1)	(2)	-	-	732	959
Corporate and other	(30)	(38)	13	8	-	-	(17)	(30)
EBITDA	**1,804**	**1,844**	**(422)**	**(385)**	**-**	**-**	**1,382**	**1,459**
EBITDA CCS	**1,816**	**1,731**	**(422)**	**(385)**	**(12)**	**113**	**1,382**	**1,459**

(1) Corresponds to "*Profit before tax*" and "*Result adjustments*" on the consolidated Statement of Cash Flows prepared under IFRS-EU.
(2) The information of the first quarter of 2018 has been restated as the result of the change in the presentation of the changes in the exchange rate on tax positions indicated in Special Items heading in this section

ROACE:

This APM is used by Repsol Management to evaluate the capacity of its operating assets to generate profit, and therefore measures invested capital (equity and debt).

The *ROACE* ("*Return on average capital employed*") is calculated as: (Adjusted Net Income, excluding Finance Income + Equity Effect + Special items[1]) / (Average Capital employed of the period from continuing operations). **Capital employed** measures own and external capital invested in the company, and corresponds to Total Equity + ***Net debt***. It includes that which corresponds to joint ventures or other companies whose operations are generated as such.

NUMERATOR	1H 2018		1H 2017	
Operating profit EU-IFRS	**1,797**		**1,257**	
Joint Arrangements reclassification	286		221	
Income tax [(1)]	(852)		(386)	
Share of profit (loss) of entities accounted for using the equity method - net of dividends	21		24	
I. ROACE result at average weighted cost	**1,252**	**2,752** [(2)]	**1,116**	**2,249** [(2)]

DENOMINATOR (*€ Million*)		
Total equity	31,158	30,183
Net financial debt	2,706	7,477
Capital employed at year end	**33,864**	**37,660**
II. Average capital employed [(3)]	**33,485**	**35,170**
CCS ROACE (I/II)	**8.2%**	**6.4%**

(1) Does not include income tax corresponding to financial results.
(2) This figure has been annualized by extrapolating data for the period (except for the Special Items).
(3) Corresponds to the average balance of capital employed at the beginning and end of the period from continuing operations.

[1] Repsol changed in 2018 the calculation of ROACE for it to encompass *"Special items"*, thus improving comparability with other sector companies. The corresponding information of the comparative period has been adapted.

NUMERATOR (*Million euros*)	Q1 18 [4]		Q1 17	
Operating profit EU-IFRS	796		844	
Reclassification of joint arrangements	180		125	
Income tax [1]	(345)		(235)	
Net income from companies accounted for using the equity method, net of taxes	11		13	
I. ROACE result at average weighted cost	642	2,644 [2]	747	3,078[2]

DENOMINATOR (*Million euros*)		
Total equity	29,284	31,425
Net financial debt	6,836	8,345
Total capital employed at year end	**36,120**	**39,770**
II. Average capital employed [3]	**32,968**	**36,134**
CCS ROACE (I/II)	**8.0%**	**8.5%**

[1] Does not include income tax corresponding to financial results.
[2] Figure annualized by extrapolating data for the year (except for the Special Items).
[3] Corresponds to the average balance of capital employed at the beginning and end of the period from continuing operations.
[4] The information of the first quarter of 2018 has been restated as the result of the change in the presentation of the changes in the exchange rate on tax positions indicated in Special Items heading in this section

2. Cash flow measures

Cash flow from operations, free cash flow, cash generated and liquidity:

The three main measures used by Group management to evaluate cash flow in the period are ***cash flow from operations***, ***free cash flow*** and ***cash flow generated***.

Cash flow from operations measures the generation of cash flow corresponding to operations and is calculated as: EBITDA +/- Changes in working capital + Receipt of dividends + Receipt/-payment of income tax + Other receipts/-payments relating to operating activities.

Free cash flow measures cash flow generation from operating and investment activities, and is quite useful for evaluating the funds available for paying shareholder dividends, and debt service payments.

The ***Cash generated*** corresponds to the ***Free cash flow*** once both the payments for dividends and remunerations from other equity instruments as well as the net interest and payments for leasing and treasury stock have been deducted. This APM measures the funds generated by the Company before financial transactions (mainly from debt issuance and repayments).

The following is a reconciliation of ***free cash flow*** and ***cash flow generated*** with the consolidated statements of cash flow prepared under IFRS-EU:

	First half					
	Adjusted cash flow		Joint ventures reclassification and others		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities	1,726	2,175	(357)	(93)	1,369	2,082
II. Cash flows from / (used in) investing activities	2,580	(1,232)	(1,185)	114	1,395	(1,118)
Free cash flow (I+II)	**4,306**	**943**	**(1,542)**	**21**	**2,764**	**964**
Cash flow generated	**3,373**	**272**	**(1,435)**	**447**	**1,938**	**719**
III. Cash flows from / (used in) financing activities and others [(1)]	(3,215)	(919)	1,572	(15)	(1,643)	(934)
Net increase / (decrease) in cash and cash equivalents (I+II+III)	**1,091**	**24**	**30**	**6**	**1,121**	**30**
Cash and cash equivalents at the beginning of the period	4,820	4,918	(219)	(231)	4,601	4,687
Cash and cash equivalents at the end of the period	5,911	4,942	(189)	(225)	5,722	4,717

	Second quarter					
	Adjusted cash flow		Joint ventures reclassification and others		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities	807	1,458	(325)	(55)	482	1,403
II. Cash flows from / (used in) investing activities	3,180	(635)	(1,227)	57	1,953	(578)
Free cash flow (I+II)	**3,987**	**823**	**(1,552)**	**2**	**2,435**	**825**
Cash flow generated	**3,839**	**688**	**(1,404)**	**254**	**2,435**	**942**
III. Cash flows from / (used in) financing activities and others [(1)]	(2,122)	154	1,585	16	(537)	170
Net increase / (decrease) in cash and cash equivalents (I+II+III)	**1,865**	**977**	**33**	**18**	**1,898**	**995**
Cash and cash equivalents at the beginning of the period	4,046	3,965	(222)	(243)	3,824	3,722
Cash and cash equivalents at the end of the period	5,911	4,942	(189)	(225)	5,722	4,717

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

The Group measures **Liquidity** as the total of "*Cash and cash equivalents*", the cash deposits of immediate availability contracted with financial institutions and undrawn long- and short-term committed credit lines at year end under facilities granted by financial institutions which may be drawn down by the company in installments, the amount, and the remaining terms of the agreement:

	First half					
	Group Reporting Model		Joint ventures reclassification and others		IFRS-EU	
	Jun - 2018	Dec - 2017	Jun - 2018	Dec - 2017	Jun - 2018	Dec – 2017
Cash and cash equivalents	5,911	4,820	(189)	(219)	5,722	4,601
Undrawn credit lines	2,393	2,503	-	-	2,393	2,503
Cash deposits of immediate availability (1)	1,528	231	-	-	1,528	231
Liquidity	**9,832**	**7,554**	**(189)**	**(219)**	**9,643**	**7,335**

(1) Repsol contracts time deposits but with immediate availability, which are recorded in "Other current financial assets" (see section 4.2 of the interim financial statements of 2018) and that do not meet the criteria to be classified as cash and cash equivalents.

Operating investments[1]:

Group management uses this APM to measure each period's investment effort, as well as its allocation by businesses segment, and corresponds to investments in the exploitation of resources made by different Group businesses. It includes that which corresponds to joint ventures or other companies whose operations are generated as such.

	First half					
	Operating investments		Joint ventures reclassification and others		IFRS-EU (1)	
	2018	2017	2018	2017	2018	2017
Upstream	900	906	(130)	(189)	770	717
Downstream	325	279	1	0	326	279
Corporate and other	20	16	0	6	20	22
TOTAL	**1,245**	**1,201**	**(129)**	**(183)**	**1,116**	**1,018**

	Second quarter					
	Operating investments		Joint ventures reclassification and others		IFRS-EU (1)	
	2018	2017	2018	2017	2018	2017
Upstream	448	468	(67)	(87)	381	381
Downstream	187	165	0	0	187	165
Corporate and other	12	11	0	6	12	17
TOTAL	**647**	**644**	**(67)**	**(81)**	**580**	**563**

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

3. Financial position measures

Debt and financial position ratios

Net Debt is the main APM used by management to measure the Company's level of debt. It is comprised of financial liabilities less financial assets, cash and cash equivalents, and the effect arising from net market valuation of financial derivative (ex - exchange rates). It also includes the net debt corresponding to joint ventures and other companies operationally managed as such.

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[1] Repsol has modified its measure of investment, which was previously net investment (operating investment net of divestment) in accordance with usual practice in the industry and to enhance comparability with sector companies, and the information of the comparative period has been adapted.

	Net Debt			Joint ventures reclassification (1)			Figures according to IFRS-EU balance sheet		
	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17
Non-current assets									
Non-current financial instruments(2)	10	360	379	1,493	1,560	692	1,503	1,920	1,071
Current assets									
Other current financial assets	1,702	254	44	(48)	3	1,187	1,654	257	1,231
Cash and cash equivalents	5,911	4,820	4,942	(189)	(219)	(225)	5,722	4,601	4,717
Non-current liabilities(3)									
Non-current financial debt	(6,468)	(7,611)	(8,831)	(2,712)	(2,469)	192	(9,180)	(10,080)	(8,639)
Current liabilities(3)									
Current financial liabilities	(4,148)	(4,160)	(4,090)	(148)	(46)	(2,719)	(4,296)	(4,206)	(6,809)
Items not included on the balance sheet									
Net mark to market valuation of financial derivatives (ex: exchange rate)(4)	287	70	79	(240)	-	-	47	70	79
NET DEBT	(2,706)	(6,267)	(7,477)				(4,550)	(7,438)	(8,350)

(1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:
June 2018: (Cash and cash equivalents of €23 million and current financial liabilities as a result of an intra-group loan of €2,733 million, less a €179 million third-party loan).
December 2017: (Cash and cash equivalents of €28 million and current financial liabilities as a result of an intra-group loan of €2,624 million, less €275 million in third-party loans)
June 2017: (Cash and cash equivalents of €17 million and current financial liabilities as a result of an intra-group loan of €2,724 million, less €365 million in third-party loans)

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

(3) Does not include finance lease obligations.

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

Gross Debt is a measure used to analyze the Group's solvency; it includes its financial liabilities and the net fair value of its exchange rate derivatives.

	Net Debt			Joint ventures reclassification and others			Figures according to IFRS-EU balance sheet		
	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17
Current financial liabilities	(4,109)	(4,133)	(4,059)	(146)	(2,670)	(2,719)	(4,255)	(4,178)	(6,778)
Net valuation at the market rates of financial derivative, such as current exchange rate	53	(9)	1	-	-	-	53	(9)	1
Current gross debt	(4,056)	(4,142)	(4,058)	(146)	(2,670)	(2,719)	(4,202)	(4,187)	(6,777)
Non-current financial liabilities	(6,415)	(7,542)	(8,752)	(2,421)	155	192	(9,127)	(10,012)	(8,560)
Non-current gross debt	(6,415)	(7,542)	(8,752)	(2,421)	155	192	(9,127)	(10,012)	(8,560)
TOTAL GROSS DEBT	(10,472)	(11,684)	(12,810)	(2,567)	(2,515)	(2,527)	(13,329)	(14,199)	(15,337)

The following ratios are based on Debt and are used by Group management to evaluate leverage ratios as well as Group solvency.

The ***Leverage ratio*** corresponds to ***Net Debt*** divided by ***Capital employed*** at year end. This ratio can be used to determine the financial structure and degree of indebtedness with regard to capital contributed by shareholders and entities which provide financing. It is the chief measure used to evaluate and compare the Company's financial position with others in the Oil & Gas sector.

Hedging instruments correspond to ***Net debt*** divided by ***EBITDA***, and makes it possible to evaluate the company's capacity for repaying external financing over a number of years (x times), as well as to compare it to similar sector companies.

The ***Solvency ratio*** is calculated as ***Liquidity*** (section 2 of this Appendix) divided by ***Current Gross debt***, and is used to determine the number of times the Group may handle its current debt using its existing liquidity.

Interest cover is calculated in the same way as debt interest (which comprises finance income and expense, see Note 22 "*Finance income and expense*" of the 2018 consolidated financial statements) divided by EBITDA. This ratio is a measurement that can determine the company's ability to cover interest payments with its EBITDA.

	First half					
	Group Reporting Model		Joint ventures reclassification		Figures according to IFRS - EU balance sheet	
Million euros	2018	2017	2018	2017	2018	2017
Interest	144	183	(30)	(34)	114	149
EBITDA	3,811	3,108	(808)	(647)	3,003	2,461
Interest cover	3.8%	5.9%			3.8%	6.1%

	Second quarter					
	Group Reporting Model		Joint ventures reclassification		Figures according to IFRS - EU balance sheet	
Million euros	2018	2017	2018	2017	2018	2017
Interest	72	89	(15)	(16)	58	73
EBITDA	2,007	1,264	(386)	(262)	1,621	1,002
Interest cover	3.6%	7.0%			3.6%	7.2%

APPENDIX III: TABLE OF CONVERSIONS AND ABBREVIATIONS

			OIL				GAS		ELECTRICITY
			Liters	Barrels	Cubic meters	toe	Cubic meters	Cubic feet	kWh
OIL	1 barrel [1]	bbl	158.99	1	0.16	0.14	162.60	5,615	1.7×10^6
	1 cubic meter [1]	m^3	1,000	6.29	1	0.86	1,033	36,481	10,691.5
	1 ton of oil equivalent [1]	toe	1,160.49	7.30	1.16	1	1,187	41,911	12,407.4
GAS	1 cubic meter	m^3	0.98	0.01	0,001	0,001	1	35.32	10.35
	1,000 cubic feet=1.04×10^6 Btu	ft^3	27.64	0.18	0.03	0.02	28.3	1,000	293.1
ELECTRICITY	1 megawatt hour	MWh	93.53	0.59	0.10	0.08	96.62	3,412.14	1,000

[1] Reference measurement: 32.35° API and relative density of 0,8636.

			Meter	Inch	Foot	Yard
LENGTH	Meter	m	1	39.37	3,281	1,093
	Inch	in	0.025	1	0,083	0,028
	Foot	ft	0.305	12	1	0,333
	Yard	yd	0.914	36	3	1

			Kilogram	Pound	Ton
MASS	Kilogram	kg	1	2,2046	0.001
	Pound	lb	0.45	1	0.00045
	Ton	t	1,000	22.046	1

			Cubic feet	Barrel	Liter	Cubic meter
VOLUME	cubic foot	ft^3	1	0.1781	28.32	0.0283
	Barrel	bbl	5,615	1	158.984	0.1590
	Liter	l	0.0353	0.0063	1	0.001
	cubic meter	m^3	35.3147	6.2898	1,000	1

Term	Description	Term	Description	Term	Description
bbl / bbl/d	Barrel/ Barrel per day	Mb	Thousand barrels of oil	Mm^3/d	Million cubic meters per day
bcf	Bcf Billion cubic feet	kbbl/d	Thousand barrels per day	Mscf/d	Million standard cubic feet per day
Bm3	Billion cubic meters	Mboe	Thousand barrels of oil equivalent	kscf/d	Thousand standard cubic feet per day
Boe	Barrel of oil equivalent	Mboe/d	Thousand barrels of oil equivalent per day	MMW	Million watts
Btu/MBtu	*British thermal unit/* Btu/millions of Btu	km^2	Square kilometer	MWh	Megawatt hour
LPG	Liquefied petroleum gas	Kt/Mt	Thousand tons/Million tons	Tcf	Trillion cubic feet
LNG	Liquefied natural gas	MMb	Million barrels	toe	Tons of oil equivalent
GWh	Gigawatts per hour	MMboe	Million barrels of oil equivalent	USD / Dollar / $	US dollar