Repsol International Finance B.V

2018 Consolidated EU-IFRS Financial statements for the year ended December 31

Together with independent auditor's report

REPSOL

Contents

Management board report

Management board report

The Managing Directors present their report together with the audited financial statements for the year ended December 31, 2018. The consolidated financial statements of the Company as at and for the year ended December 31, 2018 comprise the Company and its subsidiary (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in its associate. The company-only financial statements are part of the consolidated financial statements of Repsol International Finance B.V. (the 'Company').

Amounts in this Management board report are presented in thousands of USD, unless otherwise indicated.

General information

The Company is part of the Repsol Group, a Spanish integrated oil group engaged in all aspects of the petroleum business and one of the largest industrial groups in Spain. The Company is a wholly owned subsidiary of Repsol, S.A., Madrid, Spain (the 'Parent Company').

Funds denominated in U.S. Dollars and in Euros are raised on the international capital markets using a short-term commercial paper programme and a medium and long-term notes programme, which are lent to subsidiaries and affiliated companies, also in other currencies than U.S. Dollars. In this case, the Group hedges the foreign currency exposure by entering into foreign exchange contracts with major international banks.

Currently, as part of the Repsol Group financing needs, the Company is engaged in a Euro Medium Term Note Programme (hereinafter "EMTN") and a Euro Commercial Paper Programme (hereinafter "ECP").

In 2018, there was no new issuance by the Group, under the Repsol International Finance B.V. Euro 10,000,000,000 Guaranteed Euro Medium Term Note Programme.

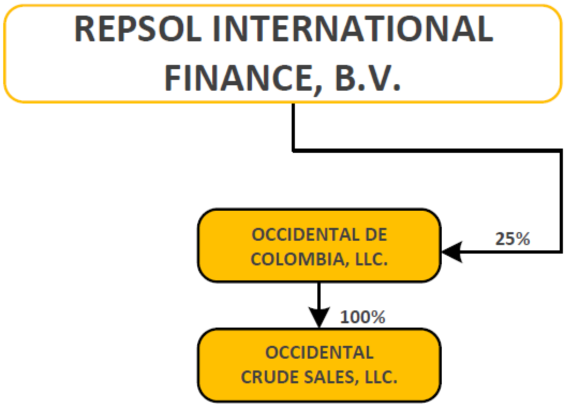
In 2018 the below listed bonds matured:

- A bond issued by the Company on September 20, 2012, in the amount of EUR 750 million, which carried a fixed annual coupon of 4.375%, matured on 20 February 2018.
- A bond issued by the Company in two tranches on July 6, 2016, in the amount of EUR 500 million and EUR 100 million , which carried a coupon of 3 month EURIBOR + 0.7%, matured on 6 July 2018.

The outstanding bonds as at December 31, 2018 are the following: maturing in 2019 for an amount of EUR 1,100 million (USD 1,260 million), maturing in 2020 for an amount of EUR 1,800 million (USD 2,062 million), maturing in 2021 for an amount of EUR 1,000 million (USD 1,145 million), maturing in 2022 for an amount of EUR 500 million (USD 573 million), maturing in 2026 for an amount of EUR 500 million (USD 573 million), maturing in 2031 for an amount of EUR 100 million (USD 115 million), maturing in 2075 for an amount of EUR 1,000 million (USD 1,145 million), besides a perpetual bond of EUR 1,000 million (USD 1,145 million).

Corporate structure

The corporate structure of the Group as at December 31, 2018 is shown below:



Statement of compliance

The consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

Financial information

The Group made a profit of USD 63,550 thousand (2017: USD 49,196 thousand). This profit is primarily caused by positive result due to finance income.

The issued and paid-in share capital of the Group amounts to EUR 300,577 thousand (2017: EUR 300,577 thousand).

Total assets of the Company amounts to USD 12,715,375 thousand (2017: USD 14,503,219 thousand).

Risk management

Considering the nature of the activities of the Group the most important category of risks to be considered are financial risks. The Group identifies, evaluates and mitigates financial risks in close cooperation with its Parent Company's Financial Risk Department. This department, with the aim to promote best practices, monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyse exposures by degree and magnitude of risks.

The Group has procedures and policies in place to control risks related to financial instruments. These policies and procedures include a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used. The management of each group entity is involved in the risk management process. Management qualifies itself as risk averse.

The main financial risks are market risk, credit risk and liquidity risk.

Market risk

The Group's activities expose it primarily to the market risks of changes in currency exchange rates, interest rates and credit ratings. Market risk (the risk of changes in market prices, such as foreign exchange rates and interest rates) will affect the Group's income or the value of its holdings of financial instruments.

Exchange rate fluctuation risk

Fluctuations in exchange rates may adversely affect the result of transactions and the value of the Group's equity. In general, this exposure to fluctuations in currency exchange rates stems from the fact that the Group has assets, liabilities and cash flows denominated in a currency other than the functional currency of the Group.

In order to mitigate the risk, and when considered appropriate, the Group performs investing and financing transactions, using the currency for which risk exposures have been identified. The Group can also carry out transactions by means of financial derivative instruments for currencies that have a liquid market, with reasonable transaction costs.

The Group effectively monitors and limits its net financial position in financial instruments by currency. The Group effectively monitors and limits the exposure to the consolidated statement of comprehensive income to a minimum. The main uncertainty in achieving this objective is the timing of cash flows.

Interest rate risk

The market value of the Group's net financing and net interest expenses could be affected as a consequence of interest rate fluctuations that could affect the interest income and interest costs of financial assets and liabilities tied to floating interest rates, as well as the fair value of financial assets and financial liabilities tied to a fixed interest rate.

When considered appropriate, the Group may decide to mitigate the interest rate risk by means of derivative financial instruments for which there is a liquid market, these hedging mechanisms are limited and, therefore, could be insufficient. Consequently, changes in interest rates could have an adverse effect on the Group's business, results and financial position.

The Group effectively monitors and limits its net financial position in financial instruments tied to fixed interest rates. Furthermore, the Group effectively monitors and limits the interest rate spreads applied in order to ensure positive financial margin irrespective of the fluctuations in interest rates.

Credit rating risk

Credit ratings affect the pricing and other conditions under which the Group is able to obtain financing. Any downgrade in the credit rating could restrict or limit the Group's access to the financial markets, increase its new borrowing costs and have a negative effect on its liquidity.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's loans receivable from related parties and unsettled derivatives whose fair value is positive. The Group attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it assumes to be creditworthy, given their high credit ratings. The Group's Treasury department monitors the above.

The carrying amount of financial assets represents the maximum credit exposure. The credit risk of each loan and receivable is influenced by the individual characteristics of each counterparty. The Group considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in the credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. However, the Group is not exposed to a significant credit risk due to the credit rating and liquidity of the debtors. No loan was overdue as at December 31, 2018 and December 31, 2017. The derivative financial instruments are entered into with high credit quality bank and financial institution counterparties that meet the standards of solvency in accordance with the market conventions regulating these kinds of financial transactions. The Group holds minimal amount of cash and banks, which are all held with bank and financial institution counterparties. The Group's Treasury department monitors the above.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's Treasury Department controls and monitors its financial needs ranging from the production of daily cash flow forecasts to the financial planning involved in the annual budgets and Repsol Group's strategic plan; it maintains diversified and stable sources of financing that facilitate efficient access to financial markets, all within the framework of a financing structure that is compatible with Repsol Group's credit rating in the investment grade category. As a result, the Group relies on its shareholder to cover any incidental liquidity needs through issuance of additional loans.

For further information, including quantitative information and sensitivity analyses, please refer to Notes 16 and 17 to the consolidated financial statements.

Other risks

The exposure to other than financial risks is mainly due to the fact that the Group is part of the Repsol Group. Repsol Group's operations and results are subject to risks as a result of changes in the competitive, economic, political, legal, regulatory, social, industrial, business and financial conditions, such as the following:

- Fluctuations in the benchmark prices of hydrocarbons and derivative products
- Intensifying competition
- Administrative, judicial and arbitration proceedings
- Regulatory and compliance risks
- Arbitrary actions and loss of assets due to government decisions
- Accident rate
- Deviations in the execution of investment projects
- Deviations in organizational management and of employees
- Errors and failures in production and/or transport processes
- Attacks against people or assets

For further information on Repsol Group's risks and risk management, please refer to the Repsol Group Integrated Management Report for the financial year 2018, available on the website www.repsol.com.

Corporate Governance

The Company applies the same corporate governance principles as applied within Repsol Group. Repsol Group's system of corporate governance, which was established in accordance with best national and international practice and standards, guides the structure, organization, and operation of its corporate bodies in the interests of the Company and of its shareholders, and is based on the principles of transparency, independence, and responsibility. For the internal regulations of the Repsol Group regarding corporate governance, available on the website www.repsol.com.

The board took into consideration the enactment of the EU Directive 2006/43/EU by a Royal Decree of July 2008 and the obligations from the fact that the Company, because of its listed securities, is a public interest organization. The board also took Regulation (EU) No 537/2014 into consideration. It was decided to delegate the public governance compliance obligations as regards the Company in respect to article 2, section 3, sub a to d of the Decree to the Audit Committee of its parent company, Repsol, S.A.

Research and development

The Group, due to its nature of business primarily being financing, does not engage in research and development activities.

Corporate responsibility

Repsol Group in general, is strengthening its business strategy with the search for better energy solutions that contribute to sustainable development. This is possible thanks to a forward-looking vision that is based on the corporate responsibility environment as one of its key attributes.

Throughout 2018, the Group, through its Parent Company has continued to expand the implementation of its corporate responsibility coordination system, through Sustainability Committees, the development of studies for identifying expectations and the publication of sustainability plans.

Number of employees

During 2018, the average number of employees was 12 (2017: 9).

Board of directors

The directors of the Company during the year were as follows:
G.A.L.R. Diepenhorst
J.M. Diaz Fernandez
V. de Luis Pastor (joined November 26, 2018)
A. Manero Ruiz (joined April 6, 2018)
S. Meseguer Calas (resigned November 26, 2018)
G. Miñano Fernández (resigned April 6, 2018)

Male/female partitioning of board members

Pursuant to article 2:276 Dutch civil code, the Company is obliged to achieve that at least 30 per cent of the board members are female and to take this into consideration when appointing new board members. At the end of the financial year 2018 the board consists of one female and three males.

In the financial year 2018 new board members have been appointed, including a female. Also one of the female board members resigned from her position so that still 25 per cent of the board members are female. For future years the Company, when a board vacancy appears, will strive to appoint one more female board member, if suitable candidates can be identified.

Subsequent events

On 19 February 2019 a bond issued by the Company in the amount of EUR 1,000 million, carrying a fixed annual coupon of 4.875% matured.

No other significant events, which could have a material impact, occurred between year-end 2018 and the date on which the Directors approved and authorized these consolidated financial statements for issue.

Future outlook

It is envisaged that the Group will continue to provide loan capital to related parties. The future level of profits will be dependent on developments of the investments and financing activities. In the forecast environment, the Group will maintain its financial strength to perform the required demand while maintaining its competitive returns.

Signing

The Hague, March 13, 2019

The Board of Directors:

G.A.L.R. Diepenhorst

J.M. Diaz Fernandez

V. de Luis Pastor

A. Manero Ruiz

Consolidated EU-IFRS Financial Statements

Consolidated statement of financial position as at December 31, 2018

(before appropriation of result)

ASSETS	Notes	2018 USD 1,000	2017 USD 1,000
Non-current assets			
Equity-accounted investees	11	40,245	38,153
Loans and borrowings	9	7,172,020	10,339,550
Deferred tax assets	8	1,307	-
Total non-current assets		**7,213,572**	**10,377,703**
Current assets			
Loans and borrowings	9	5,495,217	4,114,161
Trade and other receivables	9	3,415	4,655
Cash and cash equivalents	10	3,171	6,700
Total current assets		**5,501,803**	**4,125,516**
TOTAL ASSETS		**12,715,375**	**14,503,219**

EQUITY AND LIABILITIES	Notes	2018 USD 1,000	2017 USD 1,000
Shareholders' equity			
Issued share capital	12	344,281	356,316
Share premium	12	337,272	337,272
Other reserves	12	12,035	-
Retained earnings		235,532	741,940
Unappropriated result		63,550	49,196
Total shareholders´ equity		**992,670**	**1,484,724**
Non-current liabilities			
Loans and borrowings	14	6,929,593	8,461,448
Total non-current liabilities		**6,929,593**	**8,461,448**
Current liabilities			
Loans and borrowings	14	4,236,700	4,530,854
Dividend payable to shareholders	12	550,515	-
Trade and other payables	15	5,897	26,193
Total current liabilities		**4,793,112**	**4,557,047**
Total liabilities		**11,722,705**	**13,018,495**
TOTAL EQUITY AND LIABILITIES		**12,715,375**	**14,503,219**

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended December 31, 2018

	Notes	2018 USD 1,000	2017 USD 1,000
Interest income	6	366,321	377,012
Interest expense	6	(319,900)	(343,994)
Changes in the fair value of financial instruments	6	19,745	(142,611)
Foreign currency translation difference	6	4,642	165,946
Net impairment gain/(loss) on financial assets	9	1,556	-
Other financial income/(expense)		(1,764)	(2,321)
Financial result		**70,600**	**54,032**
Employee benefit costs	7	(1,563)	(1,165)
Other operating expenses		(2,212)	(2,705)
Operating expenses		**(3,775)**	**(3,870)**
Share of profit of equity-accounted investees	11	**14,092**	**13,026**
Result before tax		**80,917**	**63,188**
Income tax expense	8	**(17,367)**	**(13,992)**
Result for the year		**63,550**	**49,196**
Other comprehensive income		-	-
Total comprehensive income		**63,550**	**49,196**

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2018

	Issued share capital USD 1,000	Share premium USD 1,000	Other reserves USD 1,000	Retained earnings USD 1,000	Unappropriated result USD 1,000	Total equity USD 1,000
Balance as at December 31, 2017	**356,316**	**337,272**	**-**	**741,940**	**49,196**	**1,484,724**
Change in accounting policies	-	-	-	(5,089)	-	(5,089)
Balance as at January 1, 2018	**356,316**	**337,272**	**-**	**736,851**	**49,196**	**1,479,635**
Result for the year	-	-	-	-	63,550	63,550
Total comprehensive income for the year	**-**	**-**		**-**	**63,550**	**63,550**
Allocation of prior year result	-	-	-	49,196	(49,196)	-
Dividend distribution	-	-	-	(550,515)	-	(550,515)
Share capital revaluation	(12,035)	-	12,035	-	-	-
Balance as at December 31, 2018	**344,281**	**337,272**	**12,035**	**235,532**	**63,550**	**992,670**

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2017

	Issued share capital USD 1,000	Share premium USD 1,000	Retained earnings USD 1,000	Unappropriated result USD 1,000	Total equity USD 1,000
Balance as at December 31, 2016	**356,316**	**337,272**	**725,438**	**16,502**	**1,435,528**
Result for the year	-	-	-	49,196	49,196
Total comprehensive income for the year	**-**	**-**	**-**	**49,196**	**49,196**
Allocation of prior year result	-	-	16,502	(16,502)	-
Balance as at December 31, 2017	**356,316**	**337,272**	**741,940**	**49,196**	**1,484,724**

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended December 31, 2018

	2018 USD 1,000	2017 USD 1,000
Result before tax	**80,917**	**63,188**
Adjustments for:		
· Fair value changes derivative financial instruments	(16,633)	16,745
· Net finance costs investing and financing activities	(50,206)	(197,665)
· Share of profit of equity-accounted investees	(14,092)	(13,026)
Changes in working capital	70	(760)
Income tax paid	(19,471)	(10,596)
I. Cash flows from operating activities	**(19,415)**	**(142,114)**
Investments in loans and receivables	(19,333,296)	(10,672,295)
Proceeds from loans and receivables settlement	20,634,952	10,997,235
Interest on loans and receivables received	363,726	384,154
Investment in equity-accounted investees	-	(3,750)
Dividends received	12,000	13,303
II. Cash flows from in investing activities	**1,677,382**	**718,647**
Proceeds from loans and borrowings	16,953,089	10,141,978
Repayments of loans and borrowings	(18,284,706)	(10,386,377)
Interest on loans and borrowings paid	(329,879)	(344,731)
III. Cash flows used in financing activities	**(1,661,496)**	**(589,130)**
Net increase / (decrease) in cash and cash equivalents	**(3,529)**	**(12,597)**
Cash and cash equivalents at the beginning of the year	6,700	19,297
Cash and cash equivalents at the end of the year	3,171	6,700
Net increase / (decrease) in cash and cash equivalents	**(3,529)**	**(12,597)**

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Repsol International Finance B.V. (hereafter the 'Company'), is a company domiciled in the Netherlands. The address of the Company's registered office is Koninginnegracht 19, 2514 AB, The Hague, the Netherlands. The Company's Chamber of Commerce registration number is 24251372.

The consolidated financial statements of the Company as at and for the year ended December 31, 2018 comprise the Company and its subsidiary (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in its associate.

The Company is a wholly owned subsidiary of Repsol S.A., located in Madrid, Spain. The Company and its subsidiary belong to the Repsol Group, a Spanish integrated oil and gas group engaged in all aspects of the petroleum business and one of the largest industrial groups in Spain. The Company is consolidated in the consolidated financial statements of Repsol S.A. available on the website www.repsol.com.

The principal activity of the Company is financing of affiliated companies.

The Group primarily is involved in:

- lending funds to affiliated companies;
- issuing subordinated bonds, bonds under a Euro Medium Term Note Programme and issuing commercial paper under a Euro Commercial Paper Programme in various markets and advancing the net proceeds to various members of the Repsol Group.

Related to its activities as issuer of subordinated bonds that are listed in Luxembourg, the Company has chosen Luxembourg as its home Member State.

The consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2019.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

(b) Changes in accounting policies

The changes in accounting standards that have been applied by the Group as at January 1, 2018 have not had a significant impact on disclosures in the financial statements, except for IFRS 9 *Financial Instruments*. The standards applicable from January 1, 2018 are:

- IFRS 9 *Financial Instruments.*
- IFRS 15 *Revenue from Contracts with Customers*, including Clarifications to IFRS 15.
- Amendments to IFRS 1 and IAS 28 included in *Annual Improvements to IFRSs 2014-2016 Cycle.*
- Amendments to IFRS 4 Application of IFRS 9 *Financial Instruments* in conjunction with IFRS 4 *Insurance contracts.*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions.*
- Amendments to IAS 40 *Transfers of Investment Property.*

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The impact of its initial application has been recognized directly in equity, as follows:

	31 Dec 2017 USD 1,000	Impact IFRS 9	1 Jan 2018 USD 1,000
Loans and borrowings non-current	10,339,550	(4,810)	10,334,740
Loans and borrowings current	4,114,161	(1,975)	4,112,186
Impact on net assets		**(6,785)**	
Deferred tax assets		1,696	
Impact on shareholders' equity		**(5,089)**	

Classification and measurement

On January 1, 2018 (the date of initial application of IFRS 9 Financial Instruments), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into financial asset measured at amortized cost when these are held with the objective to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, if the business model includes selling financial assets then they are classified as financial measured at fair value through other comprehensive income . Below is the reconciliation of the classification and measurement of financial assets under IAS 39 and IFRS 9 on the date of initial application:

Financial asset	Original (IAS 39)	New (IFRS 9)	Carrying amount
Loans and borrowings	Loans and receivables	Amortized cost	14,453,711
Derivatives	Financial assets held-for-trading	Fair value with changes through profit and loss	3,940
Cash and cash equivalents	Held to maturity investments	Amortized cost	6,700
Other financial assets	Held to maturity investments	Amortized cost	578

In terms of financial liabilities, there has been no significant impact on the classification or measurement as a result of the application of IFRS 9.

Impairment of assets

The Group has one type of financial assets that is subject to IFRS 9's new expected credit loss model:

- debt instruments at amortized cost

While trade and other receivables, including derivative financial instruments, as well as cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies IFRS 9 therefore if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of USD 6,785 thousand on 1 January 2018 and a decrease to USD 5,229 thousand in the current reporting period.

The expected credit loss is impacted by the exposure to default, the probability of default and the loss given default. The exposure to default represents the gross amounts of the financial assets. The probability of default is determined based on available statistics regarding the default rates of enterprises with a similar credit rating, in the same region and for the applicable time horizon, resulting in a general default rate of 0.07% (2017: 0.08%).

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments.

(d) Cash Flow Statement

The Group frequently uses directions to pay as a method of payments settlement. The transactions within this type of payments that are not reflected in bank accounts are presented as non-cash transactions in 2018 and equally in the 2017 comparable figures.

(e) Functional and presentation currency

These consolidated financial statements are presented in USD, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Company determined the USD as its functional currency based on management analysis of all relevant indicators. As the company is active in the financing of upstream business, which is a USD business, and the company is managing its business from a USD point of view, the Company has determined the USD as its functional currency.

(f) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Judgments

The determination of the USD as the functional currency based on management analysis is considered a material judgement.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2018 is the measurement of fair value of derivatives and financial instruments.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, specifically for financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: Valuation based on a quoted price in an active market for identical assets or liabilities.
- Level 2: Valuation is based on a quoted price in an active market for similar financial assets or liabilities that rely on observable market inputs.
- Level 3: Valuation based on inputs for the asset or liability that are not directly observable in the market.

The second type mainly corresponds to derivative financial instruments, based on the income approach, in accordance with accounting regulations, which entail the discounting to present value of future cash flows associated with said instruments, estimated using forward curves offered in the market, including adjustments for credit risk based on the duration of the instruments. In the case of options, price-setting models based on the Black & Scholes formula are used.

The most significant variables for valuing financial instruments vary depending on the type of instrument, but fundamentally include: exchange rates (spot and forward), interest rate curves, counterparty risk curves, prices of equity securities, and the volatilities of all the aforementioned factors. In all cases, market data is obtained from reputed information agencies or correspond to quotes issued by official bodies.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The accounting policies used by the Group's companies have been adjusted so that they are consistent with those applied by the Company and so that the consolidated financial statements are presented using uniform accounting policies.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align with the accounting policies of the Group from the date that significant influence or joint control commences, until the date on which significant influence or joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(v) Presentation currency

The exchange rates against the USD of the main currencies used by the Group were as follows:

	December 31, 2018		December 31, 2017	
	Year-end rate closing rate	Cumulative average rate	Year-end rate closing rate	Cumulative average rate
Euro	1.1454	1.1809	1.1994	1.1298

(b) Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Repsol International Finance B.V. has recognized defined contribution pension plans for employees.

The annual cost of these plans is recognized under "Employee benefit costs" in the consolidated statement of comprehensive income.

(c) Finance income and finance costs

Finance income (the revenue of the company) comprises interest income on funds invested and gains on derivatives financial instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, impairment losses recognized on financial assets (other than trade receivables and derivatives) and losses on derivatives financial instruments that are recognized in profit or loss.

Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

Changes in the fair value of derivatives are reported on a net basis as either finance income or finance costs depending on whether the changes in the fair value of derivatives represent a net gain or net loss position.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(e) Income taxes

Corporate income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(f) Financial instruments

The Group classifies its non-derivative financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit and loss)
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the trade date. All other financial assets and financial liabilities are also initially recognized on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Financial assets at amortized cost

The Group classifies its financial assets as at amortized cost only if both of the following criteria are met:

a. the asset is held within a business model whose objective is to collect the contractual cash flows, and
b. the contractual terms give rise to cash flows that are solely payments of principal and interest.

These are financial assets with fixed or determinable payments that the Group does not intend to sell immediately or in the near term. They arise when the Group delivers goods or provides services or financing directly to a related or third party.

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iv) Share capital

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

(v) Derivative financial instruments

The Group holds derivative financial instruments to mitigate its foreign currency and interest rate risk exposures.

Derivative financial instruments are measured at fair value and changes therein, including any interest and dividend income, are recognized in profit or loss. Directly attributable transaction costs are directly recognized in profit or loss, as incurred.

Applicable accounting policies financial instruments 2017

The Group classified non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss
- held-to-maturity financial assets
- loans and receivables
- available-for-sale financial assets.

The Group classified non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognized loans and receivables and debt securities issued on the trade date. All other financial assets and financial liabilities are also initially recognized on the trade date.

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred, or it neither transferred nor retained substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognized a financial liability when its contractual obligations were discharged or cancelled, or expired.

Financial assets and financial liabilities were offset and the net amount presented in the statement of financial position when, and only when, the Group had a legal right to offset the amounts and intended either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Financial assets at fair value through profit or loss

This category had, in turn, the following sub-categories:

a. Financial assets held for trading: this category comprises derivatives not designated as hedging instruments.
b. Other financial assets at fair value with changes in profit and loss: this category comprises those financial assets acquired for trading or sale which are not derivatives.

Financial assets at fair value through profit or loss were measured at fair value and changes therein, including any interest, were recognized in profit or loss. Directly attributable transaction costs were directly recognized in profit or loss, as incurred.

Held-to-maturity financial assets

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity.

These assets were recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for whose the Group does not intend to sell immediately or in the near term. They arise when the Group delivers goods or provides services or financing directly to a related or third party.

These assets were initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method.

Available-for-sale financial assets

Financial assets available for sale are financial assets that have either been designated as available for sale or have not been classified in any other financial asset category.

These assets were initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments (see (d)(i)), were recognized in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iv) Share capital

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

(v) *Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(h) Impairment

Financial instruments

The Group assesses the expected credit losses associated with its debt instruments carried at amortized cost and fair value through operating comprehensive income. Expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses. Under this model, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

4. New standards and interpretations not yet adopted

A) The standards and amendments to standards that have been issued by the IASB and endorsed by the European Union and which will be mandatory in future reporting periods are listed below:

Mandatory application in 2019:

- IFRS 16 *Leases.*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

Application of IFRS 16 will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The Group’s activities as a lessee are not material and hence the Group does not expect any significant impact on the financial statements.

With respect to the standards and amendments outlined above, given their nature and scope, the Group believes that their application will not have a material impact on its consolidated financial statements.

B) At the date of issuance of these consolidated financial statements, the standards and amendments that have been issued by the IASB but not yet endorsed by the European Union are the following:

- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRS 17 *Insurance contracts*

- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement*
- Amendments to IFRS 3 *Business Combinations*
- Amendments to IAS 1 and IAS 8: *Definition of Material*

With regard to the amendments and interpretations outlined in this section, the Group is currently assessing the impact their application may have on the consolidated financial statements. Given their nature and scope, the Group believes that their application will not have a material impact on its consolidated financial statements.

5. Changes in the scope of consolidation and disposal of a subsidiary

Repsol International Finance B.V. prepares its consolidated financial statements including the investments in all of its subsidiaries, associates and joint arrangements. Note 24 to the company-only financial statements contains a list of the main subsidiaries and associates in which Repsol International Finance B.V. has direct and indirect interests that were included into the scope of consolidation in 2018.

Repsol Netherlands Finance B.V. was dissolved through voluntary liquidation effective June 25, 2018. From that date Repsol International Finance B.V. is the only entity of the Group, which means that, ceteris paribus, these financial statements will be the last consolidated financial statements of the Group. Furthermore, there were no significant changes in the scope of consolidation for the year 2018 (2017: none).

6. Financial result

A breakdown of interest income and interest expense can be presented as follows:

	2018 USD 1,000	2017 USD 1,000
Loans and receivables to shareholder	201,509	97,223
Loans and receivables to related parties	160,208	275,888
Bonds and other securities	4,604	3,901
Total interest income	**366,321**	**377,012**
Loans and borrowings from and to related parties	(26,347)	(26,143)
Bonds and other securities	(293,553)	(317,851)
Total interest expense	**(319,900)**	**(343,994)**

The foreign currency translation differences changed from an income of USD 165,946 thousand for the period ended December 31, 2017, to an income of USD 4,642 thousand for the period ended December 31, 2018. The foreign currency translation differences are mainly influenced by (i) movements and fluctuations in the exchange rate of USD compared to other currencies and (ii) movements and fluctuations in the net financial position in other currencies. Derivative financial instruments are traded with the objective to limit the exposure to the consolidated statement of comprehensive income.

7. Employee benefit costs

	2018 USD 1,000	2017 USD 1,000
Wages and salaries	1,297	1,003
Social security contributions	266	162
Total employee benefit costs	**1,563**	**1,165**
Average number of employees	**12**	**9**

Repsol International Finance B.V. has defined contribution plans for its employees, which conform to current legislation. The annual cost included in 'Employee benefit costs' in the consolidated statement of comprehensive income in relation to the defined contribution plans detailed above amounted to USD 65 thousand in 2018 (2017: USD 42 thousand).

8. Income taxes

Corporate income tax

The Company was the parent company of a fiscal unity for Dutch corporate income tax purposes along with its Dutch subsidiary Repsol Netherlands Finance B.V. until its liquidation. The Dutch corporate income tax due by the fiscal unity has been fully allocated to each company in proportion to its individual taxable result.

The Company is jointly and severally liable for the total Dutch corporate income tax payable by the fiscal unity.

The companies included in the fiscal unity are subject to Dutch corporate income tax at the general rate of 25% (20% on the first EUR 200 thousand taxable profits).

The fiscal unity is entitled to calculate its taxable profits using USD as functional currency. The Dutch corporate income tax due on the taxable profit in USD is translated in EUR against the average daily exchange rate for the book year concerned as published by the Dutch Central Bank (DNB).

Corporate income tax recognized in consolidated statement of comprehensive income

	2018 USD 1,000	2017 USD 1,000
Current income tax expense	16,524	13,533
Deferred income tax expense	389	-
Adjustment for prior years	454	459
Income tax expense	**17,367**	**13,992**

Reconciliation of effective tax rate

	2018		2017	
	%	USD 1,000	%	USD 1,000
Result before tax		**80,917**		**63,188**
Tax using the Company's domestic tax rate	25.0	**20,229**	25.0	**15,797**
Tax effect of:				
· Non-deductible expenses	0.3	**207**	0.3	**216**
· Effect of share of profits of equity-accounted investees	(4.4)	**(3,523)**	(5.2)	**(3,257)**
Change in estimates related to prior years	0.6	**454**	0.7	**459**
Other impact	-	**-**	1.2	**777**
Income tax expense	**21.5**	**17,367**	**22.0**	**13,992**

The variance between the effective tax rate (ETR) and the nominal tax rate of 25% is shaped by several items, including share of profits of equity-accounted investees (pre-tax impact of USD 14,092 thousand, 2017: USD 13,026 thousand), adjustments related to prior years (USD 454 thousand; 2017: USD 459 thousand) and other impact (USD nil; 2017: USD 777 thousand).

An income tax credit of USD 2,486 thousand (2017: USD 1,557 thousand) related to withheld taxes regarding interest on loans with counterparties from countries with whom The Netherlands has a tax treaty has been considered in determining the income tax payable to the Dutch tax authorities.

Movement in deferred tax balances

2018	Net balance at Dec 31, 2017 USD 1,000	Adoption IFRS 9 USD 1,000	Net balance as at January 1 USD 1,000	Movements USD 1,000	Net balance as at December 31 USD 1,000	Deferred tax assets USD 1,000	Deferred tax liabilities USD 1,000
Loans and borrowings	-	1,696	1,696	(389)	1,307	1,307	-
Net deferred tax assets (liabilities)	**-**	**1,696**	**1,696**	**(389)**	**1,307**	**1,307**	**-**

2017	Net balance as at January 1 USD 1,000	Disposal investments USD 1,000	Net balance as at December 31 USD 1,000	Deferred tax assets USD 1,000	Deferred tax liabilities USD 1,000
Loans and borrowings	-	-	-	-	-
Net deferred tax assets (liabilities)	-	-	-	-	-

Considering the deferred tax balances are related to the impairment on financial assets, which is calculated as the 12 months expected credit losses, the deemed recovery of the deferred tax asset is within 12 months.

Unrecognized deferred tax assets and liabilities

As at December 31, 2018, the Company does not have unrecognized deferred tax assets or deferred tax liabilities (2017: none).

Government and legal proceedings with tax implications

In accordance with prevailing tax legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the inspection period has expired. The Dutch Tax Authorities have imposed final corporate income tax assessments for the fiscal unity regarding the years up to and including 2015. Whenever discrepancies arise between the Company and the tax authorities with respect to the tax treatment applicable to certain operations, the company acts with the authorities in a transparent and cooperative manner in order to resolve the resulting controversy, using the legal avenues at its disposition with a view to reaching non-litigious solutions. As per December 31, 2018, the company has not recognized any provisions to cover contingencies associated with lawsuits and other tax matters in the (consolidated) balance statement.

9. Loans and borrowings and trade and other receivables

	2018 USD 1,000	2017 USD 1,000
Loans to shareholders	7,409,789	2,466,466
Loans to related parties	5,262,677	11,987,245
Loss allowance debt investments at amortised cost	(5,229)	-
Derivative financial instruments	3,339	3,940
Accounts receivable from related parties	-	578
Other receivables	76	137
Total receivables	**12,670,652**	**14,458,366**
Non-current	7,172,020	10,339,550
Current	5,498,632	4,118,816
Total receivables	**12,670,652**	**14,458,366**

Information about the loans to shareholders and other related parties is included in Note 18.

Loss allowance debt investments at amortized cost

The Group has one type of financial assets that is subject to the expected credit loss model:

- debt investments at amortized cost

If at the reporting date the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of USD 6,785 thousand on 1 January 2018 and a decrease to USD 5,229 thousand in the current reporting period. The income of USD 1,556 thousand has been presented as part of the financial result in the consolidated statement of comprehensive income.

10. Cash and cash equivalents

	2018 USD 1,000	2017 USD 1,000
Cash (equivalents) at bank and on hand	**3,171**	**6,700**

All cash and bank balances are available on demand.

11. Equity-accounted investees

	2018 USD 1,000	2017 USD 1,000
Interests in associates	**40,245**	**38,153**

The movements in interests in associates are as follows:

	2018 USD 1,000	2017 USD 1,000
Balance as at January 1	38,153	34,680
Share premium contribution	-	3,750
Dividends	(12,000)	(13,303)
Share of profit from continuing operations	14,092	13,026
Balance as at December 31	**40,245**	**38,153**

Occidental de Colombia LLC is the only equity-accounted investee of the Group. The percentage of ownership and control is 25%.

12. Capital and reserves

Issued share capital and other reserves

The authorized and paid-in share capital of the Company consist of 300,577 shares with a par value of EUR 1,000. The share capital of the Company in EUR is translated into USD at the exchange rate prevailing at year end 2018 of 1.1454. Translation differences are included in other reserves.

There are no specific rights, preferences and/or restrictions applicable.

Share premium

The share premium reserve concerns the receipts from the issuance of shares as far as this exceeds the nominal value of the shares.

Dividend payable to shareholders

On December 31, 2018, the Company declared a dividend in the amount of USD 550,515 thousand. In line with the shareholders resolution to that end, the dividend was distributed on January 10, 2019.

13. Capital management

The Group's primary objective is to maintain an optimal capital structure that supports its ability to continue as a going concern and safeguard the return for its shareholders, as well as the profits for the holders of equity instruments.

The Group's capital structure includes share capital, reserves and retained earnings. Specifically, the capital management policy is designed to ensure that a reasonable level of debt is maintained and to maximise the creation of shareholder value.

14. Loans and borrowings

Non-current liabilities

	2018 USD 1,000	2017 USD 1,000
Bond and other securities	6,729,593	8,361,448
Loans from related parties	200,000	100,000
Total non-current loans and borrowings	**6,929,593**	**8,461,448**

Current liabilities

	2018 USD 1,000	2017 USD 1,000
Bond and other securities	3,296,624	3,873,828
Loans from related parties	940,076	657,026
Total current loans and borrowings	**4,236,700**	**4,530,854**

More information about loans and borrowings is included in Notes 16 and 17.

15. Trade and other payables

	2018 USD 1,000	2017 USD 1,000
Accounts payable to shareholders	28	189
Accounts payable to related parties	193	325
Tax liabilities	1,202	3,815
Derivative financial instruments	4,179	21,413
Other payables	295	451
Total trade and other payables	**5,897**	**26,193**

Tax liabilities

	2018 USD 1,000	2017 USD 1,000
Corporate income tax	892	3,385
Value added tax	270	356
Wage tax and social securities	40	74
Total tax liabilities	**1,202**	**3,815**

Other payables

	2018 USD 1,000	2017 USD 1,000
Trade payables to suppliers	2	198
Other payables	293	253
Total other payables	**295**	**451**

More information about financial liabilities is included in Notes 16 and 17.

16. Financial instruments

The tables below include the carrying amounts and fair values of financial assets, financial liabilities, including information on their levels in the fair value hierarchy. They do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Current and non-current financial assets

The breakdown of the different concepts that are included on the balance sheet is as follows:

	2018 USD 1,000	2017 USD 1,000
Non-current non-derivative financial assets	7,172,020	10,339,550
Current non-derivative financial assets	5,498,388	4,121,439
Current derivative financial assets	3,339	3,940
Total financial assets	**12,673,747**	**14,464,929**

The details, by type of assets, of the Group's financial assets as at December 31, 2018 and 2017, are as follows:

As at December 31, 2018	**Fair value through profit and loss USD 1,000**	**Fair value through OCI USD 1,000**	**Amortised cost USD 1,000**	**Total USD 1,000**
Other financial assets	-	-	7,172,020	7,172,020
Non-current financial assets	-	-	7,172,020	7,172,020
Derivatives	3,339	-	-	3,339
Cash and cash equivalents	-	-	3,171	3,171
Other financial assets	-	-	5,495,217	5,495,217
Current financial assets	3,339	-	5,498,388	5,501,727
Total financial assets	**3,339**	**-**	**12,670,408**	**12,673,747**

As at December 31, 2017	**Fair value through profit and loss USD 1,000**	**Fair value through OCI USD 1,000**	**Amortised cost USD 1,000**	**Total USD 1,000**
Other financial assets	-	-	10,339,550	10,339,550
Non-current financial assets	-	-	10,339,550	10,339,550
Derivatives	3,940	-	-	3,940
Cash and cash equivalents	-	-	6,700	6,700
Other financial assets	-	-	4,114,739	4,114,739
Current financial assets	3,940	-	4,121,439	4,125,379
Total financial assets	**3,940**	**-**	**14,460,989**	**14,464,929**

The classification of the financial assets recognized in the financial statements at fair value, by fair value calculation method level hierarchy, is as follows:

	Level 1 2018	Level 1 2017	Level 2 2018	Level 2 2017	Level 3 2018	Level 3 2017	Total 2018	Total 2017
Derivatives	-	-	3,339	3,940	-	-	3,339	3,940
Other financial assets at fair value through profit and loss	-	-	-	-	-	-	-	-
Total	**-**	**-**	**3,339**	**3,940**	**-**	**-**	**3,339**	**3,940**

The valuation techniques used for the instruments classified under level 2, which mainly correspond to derivative financial instruments, are based on the income approach, in accordance with accounting regulations, which entail the discounting to present value of future cash flows associated with said instruments, estimated using forward curves offered in the market, including adjustments for credit risk based on the duration of the instruments.

The most significant variables for valuing financial instruments vary depending on the type of instrument, but fundamentally include: exchange rates (spot and forward), interest rate curves, counterparty risk curves, prices of equity securities, and the volatilities of all the aforementioned factors. In all cases, market data is obtained from reputed information agencies or correspond to quotes issued by official bodies.

The fair value of the financial assets measured at amortized cost is detailed in the following table:

	Carrying amount		Fair value	
	2018 USD 1,000	**2017 USD 1,000**	**2018 USD 1,000**	**2017 USD 1,000**
Non-current	7,172,020	10,339,550	7,492,893	10,986,678
Current	5,498,388	4,114,161	5,508,333	4,119,514
Total loans and receivables	**12,670,408**	**14,453,711**	**13,001,226**	**15,106,192**

The return accrued on the financial assets disclosed in the table above was equivalent to an average interest rate of 2.63% in 2018 and 2.36% in 2017, respectively.

The maturity of non-current debt instruments measured at amortized cost is as follows:

	2018 USD 1,000	**2017 USD 1,000**
Year 2	2,508,157	1,333,754
Year 3	1,138,456	3,460,402
Year 4	567,469	1,852,281
Year 5	-	594,471
Subsequent years	2,957,938	3,098,642
Balance as at December 31	**7,172,020**	**10,339,550**

Current and non-current financial liabilities

This note discloses the categories of financial liabilities included in the balance sheet line-items outlined below:

	2018 USD 1,000	2017 USD 1,000
Non-current non-derivative financial liabilities	6,929,593	8,461,448
Current non-derivative financial liabilities	4,236,923	4,531,566
Current derivative financial liabilities	4,179	21,413
Total financial liabilities	**11,170,695**	**13,014,427**

Following is a breakdown of the financial liabilities acquired, most of which are secured with a guarantee, as at December 31, 2018 and 2017:

As at December 31, 2018	**Financial liabilities held for trading USD 1,000**	**Financial liabilities at amortised cost USD 1,000**	**Total USD 1,000**	**Fair value USD 1,000**
Bonds and other securities	-	6,729,593	6,729,593	7,078,806
Other liabilities	-	200,000	200,000	200,285
Non-current financial liabilities	**-**	**6,929,593**	**6,929,593**	**7,279,091**
Bonds and other securities	-	3,296,624	3,296,624	3,304,218
Derivatives	4,179	-	4,179	4,179
Other liabilities	-	940,299	940,299	940,299
Current financial liabilities	**4,179**	**4,236,923**	**4,241,102**	**4,248,696**
Total financial liabilities	**4,179**	**11,166,516**	**11,170,695**	**11,527,787**

As at December 31, 2017	**Financial liabilities held for trading USD 1,000**	**Financial liabilities at amortised cost USD 1,000**	**Total USD 1,000**	**Fair value USD 1,000**
Bonds and other securities	-	8,361,448	8,361,448	9,041,060
Other liabilities	-	100,000	100,000	100,412
Non-current financial liabilities	**-**	**8,461,448**	**8,461,448**	**9,141,472**
Bonds and other securities	-	3,873,828	3,873,828	3,881,974
Derivatives	21,413	-	21,413	21,413
Other liabilities	-	657,738	657,738	657,738
Current financial liabilities	**21,413**	**4,531,566**	**4,552,979**	**4,561,125**
Total financial liabilities	**21,413**	**12,993,014**	**13,014,427**	**13,702,597**

The classification of the financial liabilities recognized in the financial statements at fair value, by fair value calculation method level hierarchy, is as follows:

	Level 1 2018	Level 1 2017	**Level 2 2018**	Level 2 2017	**Level 3 2018**	Level 3 2017	**Total 2018**	Total 2017
Derivatives	-	-	4,179	21,413	-	-	4,179	21,413
Total	**-**	**-**	**4,179**	**21,413**	**-**	**-**	**4,179**	**21,413**

The techniques used to value the financial liabilities classified as level 2 for fair value hierarchy purposes are based, in keeping with prevailing accounting rules, on an income approach and consist of discounting known or estimated future cash flows (estimated using implied forward curves provided by the market in the case of derivatives) to present value using discount curves built from benchmark market interest rates adjusted for credit risk as a function of the terms of the various instruments.

The main inputs used to value financial liabilities vary by instrument but are mainly exchange rates (spot and forward), interest rate curves, counterparty risk curves, equity prices and volatility metrics for all of the listed inputs. In all instances the market data are obtained from reputed information providers or correspond to the prices published by official bodies.

In relation with liquidity risk, disclosure of maturities relevant to Repsol funding as at December 31, 2018 and 2017 is provided in Note 17.

The breakdown of average loan balances outstanding and cost by instrument is as follows:

	2018		2017	
	Average volume USD million	Average cost %	Average volume USD million	Average cost %
Bonds	7,990	3.5	9,981	3.1
Other securities	3,141	0.2	1,397	0.1
Loans from related parties	949	2.3	2,674	1.0
Total	**12,080**	**2.7**	**14,052**	**2.5**

Bonds and other securities

The chart below discloses issues, buybacks and repayments of debt securities (recognized under current and non-current "*Bonds and other securities*") in 2018 and 2017 (principal amounts only):

	Balance as at 31/12/2017 USD 1,000	(+) Issuances USD 1,000	(-) Repurchases or reimbursement USD 1,000	(+/-) Exchange rate and other adjustments USD 1,000	Balance as at 31/12/2018 USD 1,000
Bonds	9,980,639	-	(1,624,201)	(366,904)	7,989,533
Other securities	2,049,269	15,082,541	(15,161,495)	(97,880)	1,872,436
Total	**12,029,908**	**15,082,541**	**(16,785,696)**	**(464,784)**	**9,861,969**

	Balance as at 31/12/2016 USD 1,000	(+) Issuances USD 1,000	(-) Repurchases or reimbursement USD 1,000	(+/-) Exchange rate and other adjustments USD 1,000	Balance as at 31/12/2017 USD 1,000
Bonds	9,176,502	556,714	(936,897)	1,184,320	9,980,639
Other securities	1,549,507	7,306,183	(7,048,806)	242,385	2,049,269
Total	**10,726,009**	**7,862,897**	**(7,985,703)**	**1,426,705**	**12,029,908**

Key issues and repayments carried out in 2018

Through the Company, the Group has a medium term note program (the *EUR 10,000,000,000 Guaranteed Euro Medium Term Note (EMTN) Programme*). It is registered with the *Luxembourg Commission de Surveillance du Secteur Financier* and was renewed on 02 October 2018, with a limit up to EUR 10,000,000,000.

Under the scope of this program:

In 2018 there were no additional bonds issued.

Any bonds to be issued under the Programme will be admitted to trading on the Luxembourg Stock Exchange, as the Company filed with the competent authorities the relevant Base Prospectus in accordance with the laws and regulations governing public offers of securities and their admission to trading in regulated markets.

In 2018 the below listed bonds matured:

- A bond issued by the Company on September 20, 2012, in the amount of EUR 750 million, which carried a fixed annual coupon of 4.375%, matured on 20 February 2018.
- A bond issued by the Company in two tranches on July 6, 2016, in the amount of EUR 500 million and EUR 100 million , which carried a coupon of 3 month EURIBOR + 0.7%, matured on 6 July 2018.

The repayment of these bonds implied a decline in current financial liabilities and a cash outflow of EUR 1,350 million.

In addition, through the Company, the Group has a EUR 1,500 million Euro Commercial Paper (ECP) Program (arranged on March 26, 2010) which is guaranteed by Repsol, S.A. The ECP Program was increased to EUR 2,000 million on 25 October 2010.

The outstanding balances of issues made under this program as at December 31, 2018, were EUR 1,185 million, USD 355 million and GBP 30 million. ECPs are short-term in nature.

Key issues and repayments carried out in 2017

Through the Company, the Group has a medium term note program (the EUR 10,000,000,000 Guaranteed Euro Medium Term Note (EMTN) Programme). It is registered with the Luxembourg Commission de Surveillance du Secteur Financier and was renewed on 30 May 2017, with a limit up to EUR 10,000,000,000.

Under the scope of this program:

In 2017 the Group issued the below listed bond:

- In May 2017, a EUR 500 million 5-year green bond at 99.568 per cent of the aggregate nominal amount with a coupon of 0.500 per cent fixed rate.

The bond was admitted to trading on the Luxembourg Stock Exchange, as the Company filed with the competent authorities the relevant Base Prospectus in accordance with the laws and regulations governing public offers of securities and their admission to trading in regulated markets.

A bond issued by the Company on February 16, 2007, in the amount of EUR 886 million, matured on 16 February 2017. The repayment of this bond, which carried a fixed annual coupon of 4.75%, implied a decline in current financial liabilities and a cash outflow of EUR 886 million.

The outstanding balances of issues made under the EUR 2,000 million Euro Commercial Paper (ECP) Program described above as at December 31, 2017, were EUR 1,394 million, USD 337 million and GBP 30 million. ECPs are short-term in nature.

Guaranteed debt security issues

In general, the terms and conditions of the bonds include standard early termination events. In the case of the bonds issued by the Company and guaranteed by Repsol, S.A. (face value of USD 8,018 million; USD 10,015 million in 2017), the terms and conditions contain certain early termination events (including cross-acceleration and cross default, applicable to the issuer and the guarantor) and negative pledge covenants in relation to bond issues (as long as any of the bonds remain outstanding, the issuer and the guarantor will not create or have outstanding any mortgage, charge, pledge, lien or other security interest upon the whole or any part of its undertaking, assets or revenues or to secure any guarantee of or indemnity in respect to any bonds).

If an event of default is triggered, the trustee, at its sole discretion or at the behest of the holders of at least one-fifth of the bonds or on the basis of an extraordinary bondholder resolution, is entitled to declare all the obligations under the bonds due and payable immediately. In addition, the holders of the bonds issued in 2012 through 2018 may choose elect to have their bonds redeemed upon a change of control at Repsol if such change of control results in Repsol's credit ratings being downgraded to below investment grade status.

At the date of preparation of the accompanying financial statements for issue, the Repsol Group was not in breach of any of its financial obligations or of any other obligation that could trigger the early repayment of the bonds issued by the Company.

Other financial liabilities

The chart below discloses issuances, repurchases and reimbursements of other financial liabilitiess (recognized under current and non-current "*Loans and borrowings*") in 2018 and 2017 (principal amounts only):

	Balance as at 12/31/2017 USD 1,000	(+) Issuances USD 1,000	(-) Repurchases or reimbursement USD 1,000	(+/-) Exchange rate and other adjustments USD 1,000	Balance as at 12/31/2018 USD 1,000
Loans from related parties	755,255	3,537,009	(3,140,059)	(15,390)	1,136,815
Total	**755,255**	**3,537,009**	**(3,140,059)**	**(15,390)**	**1,136,815**

	Balance as at 12/31/2016 USD 1,000	(+) Issuances USD 1,000	(-) Repurchases or reimbursement USD 1,000	(+/-) Exchange rate and other adjustments USD 1,000	Balance as at 12/31/2017 USD 1,000
Loans from related parties	4,535,318	3,264,253	(7,200,392)	156,076	755,255
Total	**4,535,318**	**3,264,253**	**(7,200,392)**	**156,076**	**755,255**

Derivative transactions

The table below reflects the impact on the balance sheet of derivative financial instruments as at December 31, 2018 and 2017 as a result of changes in their fair value since their origination and their maturities:

Classification as at December 31, 2018	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Fair value
Other derivative financial instruments					
Exchange rate	-	3,339	-	(4,179)	(840)
Total	**-**	**3,339**	**-**	**(4,179)**	**(840)**

Classification as at December 31, 2017	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Fair value
Other derivative financial instruments					
Exchange rate	-	3,940	-	(21,413)	(17,473)
Total	**-**	**3,940**	**-**	**(21,413)**	**(17,473)**

Other derivative transactions

The Group has arranged a series of derivatives to manage its exposure to foreign exchange and price risk that do not qualify as accounting hedge under IAS 39.

These derivatives include currency forward contracts which mature in less than a year, as part of the global strategy to manage the exposure to exchange-rate risk.

Guarantees

As at December 31, 2018, the Group does not have extended guarantees to third parties or Repsol Group companies whose assets, liabilities and earnings are not presented in the consolidated financial statements (joint-ventures and equity-accounted investees).

17. Financial risk management

The Group identifies, evaluates and mitigates financial risks in close cooperation with its Parent Company's Financial Risk Department. This department, with the aim to promote best practices, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks.

The Group has procedures and policies in place to control risks related to financial instruments. These policies and procedures include a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used. The management of each Group entity is involved in the risk management process.

The main financial risks are market risk, credit risk and liquidity risk.

Market risk

The Group's activities expose it primarily to the market risks of changes in currency exchange rates, interest rates and credit ratings. Market risk (the risk that changes in market prices, such as currency exchange rates and interest rates) will affect the Company's income or the value of its holdings of financial instruments.

Exchange rate fluctuation risk

Fluctuations in exchange rates may adversely affect the result of transactions and the value of the Group's equity. In general, this exposure to fluctuations in currency exchange rates stems from the fact that the Group has assets, liabilities and cash flows denominated in a currency other than the functional currency of the Group.

In order to mitigate the risk, and when considered appropriate, the Group performs investing and financing transactions, using the currency for which risk exposures have been identified. The Group can also carry out transactions by means of financial derivative instruments for currencies that have a liquid market, with reasonable transaction costs.

Sensitivity analysis

A reasonably possible strengthening (weakening) of the USD against all other currencies as at December 31, 2018 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The only individual currency with material impact is EUR.

USD (million)	Result for the year		Equity	
	2018	2017	2018	2017
USD strengthens 5%	(4)	(4)	-	-
USD weakens 5%	4	4	-	-

Interest rate risk

The market value of the Group's net financing and net interest expenses could be affected as a consequence of interest rate fluctuations that could affect the interest income and interest costs of financial assets and liabilities tied to floating interest rates, as well as the fair value of financial assets and financial liabilities tied to a fixed interest rate.

When considered appropriate, the Group may decide to mitigate the interest rate risk by means of derivative financial instruments for which there is a liquid market, these hedging mechanisms are limited and, therefore, could be insufficient. Consequently, changes in interest rates could have an adverse effect on the Group's business, results and financial position.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

USD (million)	2018	2017
Fixed-rate financial instruments	(1)	(3)
Variable rate financial instruments	1,502	1,464
Net interest bearing financial instruments	**1,501**	**1,461**

Sensitivity analysis

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

USD (million)	Result for the year		Equity	
	2018	2017	2018	2017
Increase of 50 bps	8	7	-	-
Decrease of 50 bps	(8)	(7)	-	-

Credit rating risk

Credit ratings affect the pricing and other conditions under which the Group is able to obtain financing. Any downgrade in the credit rating could restrict or limit the Group's access to the financial markets, increase its new borrowing costs and have a negative effect on its liquidity.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's loans receivable from related parties and unsettled derivatives whose fair value is positive. The Group attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it assumes to be creditworthy, given their credit ratings.

The carrying amount of financial assets represents the maximum credit exposure.

Loans receivable from related parties

The credit risk of each loan is influenced by the individual characteristics of each counterparty. The Group applies IFRS 9 therefore if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. However, the Group is not exposed to a significant credit risk due to the credit rating and liquidity of the debtors. No loan was overdue as at December 31, 2018 and December 31, 2017.

Derivative financial instruments

The derivative financial instruments are entered at investment grade with bank and financial institution counterparties that meet the standards of solvency in accordance with the market conventions regulating these kinds of financial transactions.

Cash and cash equivalents

The Group held cash and cash equivalents of USD 3,171 thousand as at December 31, 2018 (2017: USD 6,700 thousand). The cash and cash equivalents are held with bank and financial institution counterparties.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In this regard, the Group has a positive net debt balance of USD 1,501 million as at December 31, 2018 (2017: USD 1,461 million) and an excess of current assets over current liabilities of USD 709 million as at December 31, 2018 (2017: deficit of USD 432 million).
The Group's Treasury Department controls and monitors its financial needs ranging from the production of daily cash flow forecasts to the financial planning involved in the annual budgets and Repsol Group's strategic plan; it maintains diversified and stable sources of financing that facilitate efficient access to financial markets, all within the framework of a financing structure that is compatible with Repsol Group's credit rating in the investment grade category. As a result, the Group relies on its shareholder to cover any incidental liquidity needs through issuance of additional loans.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments:

	Financial liabilities as at December 31, 2018						
USD (million)	2019	2020	2021	2022	2023	subsequent	TOTAL
Bonds and other securities	3,563	2,272	1,305	691	115	8,054	16,000
Other liabilities	948	6	206	-	-	-	1,160
Total	**4,511**	**2,278**	**1,511**	**691**	**115**	**8,054**	**17,160**

	Financial liabilities as at December 31, 2017						
USD (million)	2018	2019	2020	2021	2022	subsequent	TOTAL
Bonds and other securities	4,195	1,598	2,379	1,366	723	8,554	18,815
Other liabilities	659	102	-	-	-	-	761
Total	**4,854**	**1,700**	**2,379**	**1,366**	**723**	**8,554**	**19,576**

18. Related parties

Parent and ultimate controlling party

The Company is a wholly owned subsidiary of Repsol, S.A, Madrid, Spain. Repsol, S.A. is a Spanish integrated oil company engaged in all aspects of the petroleum business and one of the largest industrial groups in Spain.

Repsol International Finance undertakes transactions with related parties on an arm's length basis. For the purposes of presenting this information, the following are considered to be related parties:

a. Major shareholders: the Company's significant shareholder that is deemed a related party is Repsol, S.A. (100% share capital as at December 31, 2018) and its group companies.
b. Executives and directors: includes members of the Board of Directors.
c. Group Companies: includes transactions with Group companies or entities for the part not eliminated in the consolidation process (corresponding mainly to transactions undertaken with companies accounted for using the equity method).

Income, expenses and other transactions recorded in 2018 with related parties were as follows:

	Major shareholders USD 1,000	Executive and Directors USD 1,000	Group companies USD 1,000	Total USD 1,000
Expense and income				
Financial expenses	26,347	-	-	26,347
Derivative financial instruments	7,207	-	-	7,207
Other expenses	1,709	446	-	2,155
Total expenses	**35,263**	**446**	**-**	**35,709**
Financial income	361,717	-	-	361,717
Dividends received	-	-	12,000	12,000
Total income	**361,717**	**-**	**12,000**	**373,717**

	Major shareholders USD 1,000	Executive and Directors USD 1,000	Group companies USD 1,000	Total USD 1,000
Other transactions				
Finance agreements: credits and capital contributions (lender)	12,667,237	-	-	12,667,237
Other receivables	-	-	-	-
Finance agreements: credits and capital contributions (borrower)	(1,140,076)	-	-	(1,140,076)
Dividend payable to shareholders	(550,515)	-	-	(550,515)
Other payables	(221)	-	-	(221)

Income, expenses and other transactions recorded in 2017 with related parties were as follows:

	Major shareholders USD 1,000	Executive and Directors USD 1,000	Group companies USD 1,000	Total USD 1,000
Expense and income				
Financial expenses	26,143	-	-	26,143
Derivative financial instruments	109,266	-	-	109,266
Other expenses	1,534	391	-	1,925
Total expenses	**136,943**	**391**	**-**	**137,334**
Financial income	373,111	-	-	373,111
Derivative financial instruments	-	-	-	-
Dividends received	-	-	13,303	13,303
Total income	**373,111**	**-**	**13,303**	**386,414**

	Major shareholders USD 1,000	Executive and Directors USD 1,000	Group companies USD 1,000	Total USD 1,000
Other transactions				
Finance agreements: credits and capital contributions (lender)	14,453,711	-	-	14,453,711
Other receivables	578	-	-	578
Finance agreements: credits and capital contributions (borrower)	(757,026)	-	-	(757,026)
Other payables	(514)	-	-	(514)

The transactions performed by Repsol International Finance B.V. with its Group companies and those performed by the Group companies among themselves form part of the Company's ordinary business activities in terms of their purpose and terms and conditions. All transactions are considered to be at arm's length.

19. Non-cash transactions

Certain financial transactions occur without actual cash flows on the Group's bank accounts. There are four relevant categories of these transactions:

1. capitalization of accrued interest in an existing loan
2. netting of existing loans receivable and loans payable with the same related party
3. agreements on assignment of loans receivable and loans payable from one related party to another
4. arrangements on payments to settle transactions without the use of the Group's bank accounts

These transactions are part of the Group's ordinary activities. All relevant transactions are transactions between Repsol Group companies.

The non-cash investing and financing activities of the Group, which are not reflected in the consolidated statement of cash flows, can be presented as follows:

	2018 USD 1,000	2017 USD 1,000
Loans receivable new issuance	(1,456,743)	(2,929,403)
Loans receivable settlements	1,422,966	3,719,627
Interest receivable decrease/(increase)	14,770	73,186
Loans payable new issuance	734,046	995,722
Loans payable settlements	(714,971)	(1,786,476)
Interest payable increase/(decrease)	(68)	(72,656)

20. Subsequent events

On 19 February 2019 a bond issued by the Company in the amount of EUR 1,000 million, carrying a fixed annual coupon of 4.875% matured.

No other significant events, which could have a material impact, occurred between year-end 2018 and the date on which the Directors approved and authorized these consolidated financial statements for issue.

21. Signing of the financial statements

The Hague, March 13, 2019

The Board of Directors:

G.A.L.R. Diepenhorst

J.M. Diaz Fernandez

V. de Luis Pastor

A. Manero Ruiz

Company-Only Financial statements

Company-only balance sheet as at December 31, 2018

(before appropriation of result)

ASSETS	Notes	2018 USD 1,000	2017 USD 1,000
Non-current assets			
Participating interests	24	40,245	229,372
Loans and borrowings	25	7,172,020	9,501,576
Deferred tax assets		1,307	-
Total non-current assets		**7,213,572**	**9,730,948**
Current assets			
Loans and borrowings	25	5,495,217	4,114,089
Trade and other receivables	26	3,415	77,946
Cash and cash equivalents		3,171	1,514
Total current assets		**5,501,803**	**4,193,549**
TOTAL ASSETS		**12,715,375**	**13,924,497**

EQUITY AND LIABILITIES	Notes	2018 USD 1,000	2017 USD 1,000
Shareholders' equity			
Issued share capital	27	344,281	356,316
Share premium reserve	27	337,272	337,272
Other Reserves	27	12,035	-
Retained earnings	27	235,532	741,940
Unappropriated result	27	63,550	49,196
Total equity		**992,670**	**1,484,724**
Non-current liabilities			
Loans and borrowings	28	6,929,593	8,371,448
Total non-current liabilities		**6,929,593**	**8,371,448**
Current liabilities			
Loans and borrowings	28	4,236,700	4,022,550
Dividend payable to shareholders	27	550,515	-
Trade and other payables	29	5,897	45,775
Total current liabilities		**4,793,112**	**4,068,325**
Total liabilities		**11,722,705**	**12,439,773**
TOTAL EQUITY AND LIABILITIES		**12,715,375**	**13,924,497**

Company-only income statement for the year ended December 31, 2018

	Notes	2018 USD 1,000	2017 USD 1,000
Employee benefit costs	**31**	(1,563)	(1,165)
Other operating expenses		(2,211)	(2,075)
Operating expenses		**(3,774)**	**(3,240)**
Interest income	**32**	359,775	344,401
Interest expense	**32**	(319,094)	(323,601)
Changes in the fair value of financial instruments	**32**	11,494	(195,909)
Foreign currency translation difference	**32**	15,970	228,585
Net impairment gain/(loss) on financial assets	**25**	1,556	-
Other financial income/(expense)		(1,764)	(2,320)
Financial result		**67,937**	**51,156**
Share in result from participating interests	**33**	**16,066**	**14,676**
Result before tax		**80,229**	**62,592**
Income tax expense	**34**	**(16,679)**	**(13,396)**
Result for the year		**63,550**	**49,196**

Notes to the company-only financial statements

22. General

The company-only financial statements are part of the financial statements of Repsol International Finance B.V. (the 'Company') for the year ended December 31, 2018.

23. Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company-only financial statements, the Company makes use of the option provided in section 2:362(8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company-only financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. See Notes 1 through 4 to the consolidated financial statements for a detailed description of these principles.

Participating interests in group companies

Participating interests in group companies are accounted for in the company-only financial statements according to the equity method. Refer to the basis of consolidation accounting policy in the consolidated financial statements.

Result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. As far as gains or losses on transactions involving the transfer of assets and liabilities between the Company and its participating interests or between participating interests themselves can be considered unrealized, they have not been recognized.

24. Participating interests

Movements in participating interests were as follows:

	2018 USD 1,000	2017 USD 1,000
Balance as at January 1	229,372	224,249
Dividends received	(12,000)	(13,303)
Share in result of participating interests	16,066	14,676
Voluntary liquidation of group companies	(193,193)	-
Capital contributions	-	3,750
Balance as at December 31	**40,245**	**229,372**

For details on the accounts receivable from participating interests and the other receivables, reference is made to Notes 25 and 26.

Repsol International Finance B.V., with its statutory seat in The Hague has the following participating interests:

Name	Location	Share in issued capital %
Consolidated participating interests		
Direct		
Repsol Netherlands Finance B.V. (until June 25, 2018)	The Netherlands	**100**
Other participating interests		
Direct		
Occidental de Colombia LLC	United States	**25**
Indirect		
Occidental Crude Sales LLC	United States	**25**

Repsol Netherlands Finance B.V. was dissolved through voluntary liquidation effective June 25, 2018, with no impact on any external stakeholders.

25. Loans and borrowings

The loans and borrowings can be specified as follows:

	2018 USD 1,000	2017 USD 1,000
Loans to related parties	12,470,376	13,397,989
Loss allowance debt investments at amortised cost	(5,229)	-
Accrued interest on loans	202,090	217,676
Total loans and borrowings	**12,667,237**	**13,615,665**

The maturity of the loans to related parties can be specified as follows:

	2018 USD 1,000	2017 USD 1,000
Less than 1 year	5,293,127	3,896,413
1-5 years	4,214,622	6,402,934
More than 5 years	2,957,398	3,098,642
Total loans to related parties	**12,465,147**	**13,397,989**

Loans to related parties, denominated predominantly in Euros, bear an average interest of 2.7% per annum (2017: 2.7%).

If at the reporting date the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of USD 6,785 thousand on 1 January 2018 and a decrease to USD 5,229 thousand in the current reporting period. The income of USD 1,556 thousand has been presented as part of the financial result in the consolidated statement of comprehensive income.

The movement during the year of the non-current portion of loans to related parties can be shown as follows:

	2018 USD 1,000	2017 USD 1,000
Balance as at January 1	9,501,576	9,246,829
Change in accounting policies January 1, 2018	(4,810)	-
Loans issued	1,409,829	566,561
Loans redeemed	(2,085,114)	(13,118)
Translation difference	(281,153)	1,174,347
Transfer to/from current loans	(1,370,208)	(1,473,043)
Loss allowance debt investments at amortised cost	1,900	-
Balance as at December 31	**7,172,020**	**9,501,576**

26. Trade and other receivables

	2018 USD 1,000	2017 USD 1,000
Accounts receivable from related parties	-	77,261
Derivative financial instruments	3,339	123
Other receivables	76	562
	3,415	**77,946**

The trade and other receivables are due within one year.

27. Shareholders' equity

	Issued share capital USD 1,000	Share premium USD 1,000	Other reserves USD 1,000	Retained earnings USD 1,000	Unappropriated result USD 1,000	Total equity USD 1,000
Balance as at December 31, 2016	**356,316**	**337,272**	**-**	**725,438**	**16,502**	**1,435,528**
Result for the year	-	-	-	-	49,196	49,196
Appropriation of prior years' result	-	-	-	16,502	(16,502)	-
Balance as at December 31, 2017	**356,316**	**337,272**	**-**	**741,940**	**49,196**	**1,484,724**
Change in accounting policies January 1, 2018	-	-	-	(5,089)	-	(5,089)
Appropriation of prior years' result	-	-	-	49,196	(49,196)	-
Result for the year	-	-	-	-	63,550	63,550
Dividend distribution	-	-	-	(550,515)	-	(550,515)
Share capital revaluation	(12,035)	-	12,035	-	-	-
Balance as at December 31, 2018	**344,281**	**337,272**	**12,035**	**235,532**	**63,550**	**992,670**

Issued share capital and other reserves

The authorized and paid-in share capital of the Company consist of 300,577 shares with a par value of EUR 1,000. The share capital of the Company in EUR is translated into USD at the exchange rate prevailing at year-end 2018 of 1.1454. Translation differences are included in other reserves.

There are no specific rights, preferences and/or restrictions applicable.

Share premium

The share premium reserve concerns the receipts from the issuance of shares as far as this exceeds the nominal value of the shares.

Unappropriated result

- Appropriation of result for the financial year 2017

The Annual report 2017 was adopted in the General Meeting held on April 5, 2018. The General Meeting has determined the appropriation of result in accordance with the proposal being made to that end.

- Proposal for appropriation of result for the financial year 2018

The General Meeting of Shareholders will be asked to approve the following appropriation of the result for the year 2018: an amount of USD 63,550 thousand to be added to the retained earnings. The result for the year 2018 is included under the unappropriated result item in the shareholders' equity.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit in so far as
(1) the company can continue to pay its outstanding debts after the distribution (the so-called distribution test), and
(2) the shareholders' equity exceeds the legal reserves and statutory reserves under the articles of association to be maintained (the so-called balance sheet test). If not, management of the company shall not approve the distribution. Preliminary tests carried out by management revealed no indications that the proposed distribution of dividend will not be possible, but these tests have to be finalized (and management has to approve the distribution) prior to the actual payment of the dividend.

Dividend payable to shareholders

On December 31, 2018, the Company declared a dividend in the amount of USD 550,515 thousand. In line with the shareholders resolution to that end, the dividend was distributed on January 10, 2019.

28. Loans and borrowings

The loans and borrowings can be specified as follows:

	2018 USD 1,000	2017 USD 1,000
Bonds and other securities	6,729,593	8,361,448
Loans from related parties	200,000	10,000
Total non-current loans and borrowings	**6,929,593**	**8,371,448**

	2018 USD 1,000	2017 USD 1,000
Bonds and other securities	3,296,624	3,873,828
Loans from related parties	936,815	148,334
Accrued interest on loans from related parties	3,261	388
Total current loans and borrowings	**4,236,700**	**4,022,550**

Further information on Bonds and other securities is included in Notes 14, 16 and 17 to the consolidated financial statements.

Loans from related parties, denominated predominantly in U.S. Dollars, bear an average interest of 3.2% per annum (2017: 1.7%).

The movement during the year of loans from related parties can be shown as follows:

	2018 USD 1,000	2017 USD 1,000
Balance as at January 1	158,334	224,972
Loans received	3,048,641	516,398
Loans repaid	(2,044,023)	(583,359)
Translation difference	(39,290)	-
Interest capitalized	13,153	323
Balance as at December 31	**1,136,815**	**158,334**

29. Trade and other payables

	2018 USD 1,000	2017 USD 1,000
Tax liabilities	1,202	23,694
Accounts payable to shareholder	28	189
Accounts payable to related parties	193	325
Derivative financial instruments	4,179	21,138
Other payables	295	429
Total trade and other payables	**5,897**	**45,775**

Trade and other payables are due within one year.

Tax liabilities

	2018 USD 1,000	2017 USD 1,000
Corporate income tax	892	23,264
Value added tax	270	356
Wage tax and social securities	40	74
Total tax liabilities	**1,202**	**23,694**

30. Financial instruments

General

The Company has exposure to the following risks from its use of financial instruments:

- market risk.
- credit risk;
- liquidity risk.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the company-only financial statements of Repsol International Finance B.V. Further quantitative disclosures are included below.

Fair value

The fair value of financial instruments can be presented as follows:

	Carrying amount		Fair value	
	2018 USD 1,000	2017 USD 1,000	2018 USD 1,000	2017 USD 1,000
Non-current assets				
Loans to related parties	7,172,020	9,501,576	7,492,893	10,148,717
Current assets				
Loans to related parties	5,495,217	4,114,089	5,505,162	4,119,442
Other financial assets	6,510	78,898	6,510	78,898
Non-current liabilities				
Bonds and other securities	(6,729,593)	(8,361,448)	(7,078,806)	(9,041,060)
Loans from related parties	(200,000)	(10,000)	(200,285)	(10,041)
Current liabilities				
Bonds and other securities	(3,296,624)	(3,873,828)	(3,304,218)	(3,881,974)
Loans from related parties	(940,076)	(148,722)	(940,076)	(148,722)
Other financial liabilities	(4,400)	(21,652)	(4,400)	(21,652)
Total financial instruments	**1,503,054**	1,278,913	**1,476,780**	1,243,608

For further information, please refer to Note 16 to the consolidated financial statements as well as Notes 25 and 28.

31. Employee benefit costs

	2018 USD 1,000	2017 USD 1,000
Wages and salaries	1,297	1,003
Social security contributions	266	162
Total employee benefit costs	**1,563**	**1,165**
Average number of employees	**12**	**9**

Repsol International Finance B.V. has defined contribution plans for its employees, which conform to current legislation. The annual cost included in 'Employee benefit costs' in the consolidated statement of income in relation to the defined contribution plans detailed above amounted to USD 65 thousand in 2018 (2017: USD 42 thousand). There are no employees working abroad.

32. Financial result

A breakdown of interest income and interest expense can be presented as follows:

	2018 USD 1,000	2017 USD 1,000
Loans and receivables to shareholder	201,509	97,223
Loans and receivables to related parties	153,662	243,277
Bonds and other securities	4,604	3,901
Total interest income	**359,775**	**344,401**

	2018 USD 1,000	2017 USD 1,000
Loans and borrowings from related parties	(25,541)	(5,750)
Bonds and other securities	(293,553)	(317,851)
Total interest expense	**(319,094)**	**(323,601)**

33. Share in results from participating interests

An amount of USD 1,974 thousand (2017: USD 1,650 thousand) of share in results from participating interests relates to group companies.

34. Income taxes

Corporate income tax

The Company was the parent company of a fiscal unity for Dutch corporate income tax purposes along with its Dutch subsidiary Repsol Netherlands Finance B.V. until its voluntary liquidation. The Dutch corporate income tax due by the fiscal unity has been fully allocated to each company in proportion to its individual taxable result.

The Company is jointly and severally liable for the total Dutch corporate income tax payable by the fiscal unity.

The companies included in the fiscal unity are subject to Dutch corporate income tax at the general rate of 25% (20% on the first EUR 200,000 taxable profit).

The fiscal unity is entitled to calculate its taxable profits using USD as functional currency. The Dutch corporate income tax due on the taxable profit in USD is translated in EUR against the average daily exchange rate for the book year concerned as published by the Dutch Central Bank (DNB).

Reconciliation of effective tax rate

	2018		2017	
	%	USD 1,000	%	USD 1,000
Result before tax		**80,229**		**62,592**
Tax using the Company's domestic tax rate	25.0	**20,057**	25.0	**15,648**
Tax effect of:				
· Non-deductible expenses	0.3	**207**	0.3	**216**
· Share in result of participating interests	(5.0)	**(4,017)**	(5.9)	**(3,669)**
Change in estimates related to prior years	0.6	**454**	0.7	**459**
Other impact	(0.0)	**(22)**	1.2	**742**
	20.9	**16,679**	**21.3**	**13,396**

The variance between the effective tax rate (ETR) and the nominal tax rate of 25% is shaped by several items, including share of profits of equity-accounted investees (pre-tax impact of USD 16,068 thousand, 2017: USD 14,676 thousand), adjustments related to prior years (USD 454 thousand; 2017: USD 459 thousand) and other impact and rounding (negative USD 22 thousand; 2017: USD 742 thousand).

An income tax credit of USD 2,486 thousand (2017: USD 1,557 thousand) related to withheld taxes regarding interest on loans with counterparties from countries with whom The Netherlands has a tax treaty has been considered in determining the income tax payable to the Dutch tax authorities.

Movement in deferred tax balances

2018	Net balance at Dec 31, 2017 USD 1,000	Adoption IFRS 9 USD 1,000	Net balance as at January 1 USD 1,000	Movements USD 1,000	Net balance as at December 31 USD 1,000	Deferred tax assets USD 1,000	Deferred tax liabilities USD 1,000
Loans and borrowings	-	1,696	1,696	(389)	1,307	1,307	-
Net deferred tax assets (liabilities)	**-**	**1,696**	**1,696**	**(389)**	**1,307**	**1,307**	**-**

2017	Net balance as at January 1 USD 1,000	Disposal investments USD 1,000	Net balance as at December 31 USD 1,000	Deferred tax assets USD 1,000	Deferred tax liabilities USD 1,000
Loans and borrowings	-	-	-	-	-
Net deferred tax assets (liabilities)	**-**	**-**	**-**	**-**	**-**

Considering the deferred tax balances are related to the impairment on financial assets, which is calculated as the 12 months expected credit losses, the deemed recovery of the deferred tax asset is within 12 months.

Unrecognized deferred tax assets and liabilities

As at December 31, 2018, the Company does not have unrecognized deferred tax assets or deferred tax liabilities (2017: none).

Government and legal proceedings with tax implications

In accordance with prevailing tax legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the inspection period has expired. The Dutch Tax Authorities have imposed final corporate income tax assessments for the fiscal unity regarding the years up to and including 2016. Whenever discrepancies arise between Repsol and the tax authorities with respect to the tax treatment applicable to certain operations, the company acts with the authorities in a transparent and cooperative manner in order to resolve the resulting controversy, using the legal avenues at its disposition with a view to reaching non-litigious solutions. As per December 31, 2018, the company has not recognized any provisions to cover contingencies associated with lawsuits and other tax matters in the (consolidated) balance statement.

35. Contingent liabilities

Fiscal unity

The Company was the parent company of a fiscal unity for Dutch corporate income tax purposes along with its Dutch subsidiary Repsol Netherlands Finance B.V. until its voluntary liquidation. As a result, the Company is jointly and severally liable for the total Dutch corporate income tax payable by the fiscal unity.

36. Auditor's remuneration

The fees listed below relate to procedures applied to the Company and its consolidated Group entities by PricewaterhouseCoopers Accountants N.V. (2017: Deloitte Accountants N.V.), the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta), as well as by other Dutch and foreign-based PricewaterhouseCoopers (2017: Deloitte) individual partnerships and legal entities:

	2018 USD 1,000	2017 USD 1,000
Financial statements audit fees	104	129
Other non-audit services	-	50
Total auditor's remuneration	**104**	**179**

37. Related parties

Parent and ultimate controlling party

The Company is a wholly owned subsidiary of Repsol S.A, Madrid, Spain. Repsol, S.A. is a Spanish integrated oil company engaged in all aspects of the petroleum business and one of the largest industrial groups in Spain.

Repsol International Finance B.V. undertakes transactions with related parties on an arm's length basis. For the purposes of presenting this information, the following are considered to be related parties:

a. Major shareholders: the Company's significant shareholder that is deemed a related party is Repsol, S.A. (100% share capital as at December 31, 2018) and its group companies.
b. Executives and directors: includes members of the Board of Directors.
c. Group Companies: includes transactions with Group companies or entities for the part not eliminated in the consolidation process (corresponding mainly to transactions undertaken with companies accounted for using the equity method).

The Company recorded an interest income from related parties of USD 355,171 thousand (2017: USD 340,500 thousand) of which USD nil (2017: nil) from consolidated Group companies and USD 201,509 thousand (2017: USD 97,223 thousand) from its shareholder. The total interest expenses to related parties amounts to USD 25,541 thousand (2017: USD 5,750 thousand). The dividend received from equity accounted investees amounts to USD 12,000 thousand (2017: USD 13,303 thousand).

For further information, please refer to Note 18 to the consolidated financial statements.

The Company was statutory director of its subsidiary for which it received no remuneration.

All transactions with related parties are considered to be at arm’s length.

38. Directors’ remuneration

The emoluments, including pension costs as referred to in Section 2:383(1) of the Dutch Civil Code, charged in the financial year to the Company amounted to USD 446 thousand (2017: USD 391 thousand) for managing directors and former managing directors. Solely the managing directors qualify as key management personnel and all their emoluments regard short-term employee benefits. Other directors do not receive any remuneration from the Company.

There are no loans, advances and guarantees granted by the Company to its directors.

39. Corporate Governance

The board took into consideration the enactment of the EU Directive 2006/43/EU by a Royal Decree of 26 July 2008 (“the Decree”) and the obligations, because of its listed securities, as a public interest organization. The corporate governance compliance obligations in respect of article 2, section 2, sub a to f of the Decree has been delegated to the Audit Committee of its parent company, Repsol, S.A. The board also took Regulation (EU) No 537/2014 into consideration.

40. Signing of the financial statements

The Hague, March 13, 2019

The Board of Directors:

G.A.L.R. Diepenhorst

J.M. Diaz Fernandez

V. de Luis Pastor

A. Manero Ruiz

Other information

1. Independent auditor’s report

Reference is made to the independent auditor’s report included hereafter.

2. Provisions in the Articles of Association governing the appropriation of profit

Article 22 of the Company’s Articles of Association provides that the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

STATEMENT

The members of the Board of Directors of REPSOL INTERNATIONAL FINANCE B.V. (the "Company") state that, to the best of our knowledge, the Financial Statements (Company-only and Consolidated) for the year ended on the 31st of December 2018, approved by the Board of Directors on 13 March 2019, and prepared in accordance with the applicable accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and that the management reports include a fair view of the development and performance of the business and the position of the Company, as well as a description of the principal risks and uncertainties facing it.

Mr. José Manuel Díaz Fernández Director	Mr. G.A.L.R. Diepenhorst Director
Mr. Alfredo Manero Ruiz Director	Ms. Virginia de Luis Pastor Director

Independent auditor's report

To: the general meeting of Repsol International Finance B.V.

Report on the financial statements 2018

In our opinion, Repsol International Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of Repsol International Finance B.V., The Hague ('the Company'). The financial statements include the consolidated financial statements of Repsol International Finance B.V. together with its subsidiaries ('the Group') and the company financial statements.

The financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the company-only balance sheet as at 31 December 2018;
- the following statements for 2018: the consolidated statements of comprehensive income, changes in equity and cash flows and the company-only income statement; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SWSJJCKN22QR-1773859229-57

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Independence

We are independent of Repsol International Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

The Group's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Repsol S.A. as disclosed in note 16 to the financial statements. The Company has derivative financial instruments in place to mitigate interest rate risk and currency risk. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the managing directors made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2(e) of the financial statements, the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the measurement of expected credit losses, we considered this matter as key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified the existence of the loans issued as a key audit matter because of the importance of their existence for users of the financial statements.

Other areas of focus, that were not considered as key audit matters, were the adoption and implementation of IFRS 9. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the managing directors that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams included the appropriate skills and competences, which are needed for the audit of a finance company. We therefore included specialists in the areas of v*aluation and accounting* in our team.

First-year audit consideration

After our appointment as the Company's auditors, we developed and executed a comprehensive transition plan. As part of this transition plan, we carried out a process of understanding the strategy of the Company, its business, its internal control environment and IT systems. We looked at where and how this affected the Company's financial statements and internal control framework. Additionally, we reviewed the predecessor auditor's files and discussed the outcome thereof to confirm our understanding of the opening balances and internal controls within the Company. Based on these procedures, we have prepared our risk assessment and audit strategy and prepared our audit plan, which we discussed with the managing directors.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at US$125,000,000. As a basis for our judgement, we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders are the most important ones. Inherent to the nature of the Company's business, the amounts in the consolidated statement of financial position are large in proportion to the consolidated statement of comprehensive income line items employee benefit costs, other operating expenses and income tax expense. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 10% of the total of those expenses.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the managing directors that we would report to them misstatements identified during our audit above US$6,250,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the managing directors. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter	***How our audit addressed the matter***
Measurement of expected credit losses *Note 9* We consider the valuation of the loans issued, as disclosed in note 9 to the financial statements for a total amount of US$12,670,652,000, to be a key audit matter. This is due to the size of the loan portfolio and impairment rules introduced by IFRS 9.	We performed the following procedures to test the managing directors' assessment of the expected credit loss to support the valuation of the loans issued to Repsol S.A. group companies: • We assessed, on a sample basis, the data input used to calculate the initial fair value of the

Key audit matter	*How our audit addressed the matter*
The basis for determining any expected credit loss pursuing to IFRS 9 is the classification and measurement of financial instruments. The Company has performed an assessment to conclude whether the cash flows from financial instruments fulfil the requirements of the SPPI test (solely of payment of principal and interest). IFRS 9 requires an entity to 'look through' a financial instrument and identify any cash flow mismatches or reduced cash flow variabilities. This makes the assessment complex and creates a high hurdle to demonstrate that an instrument meets the SPPI test. The managing directors have determined that all loans issued are categorised as stage 1 loans, hence only a 12-month expected credit loss ('ECL') has been recognised. The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the ECL. Amongst other things, this applies to choices and judgements made in the impairment methodology, including the determination of the probability of default ('PD'), the loss-given default ('LGD') and the exposure at default ('EAD'). With the introduction of IFRS 9, these calculations must also take into account forward-looking information ('FLI') of macro-economic factors considering multiple scenarios. Mainly with respect to the PD and LGD used in the determination of the expected credit losses, management has applied significant judgement given the low default character of the Company's loan portfolio.	loans, including cash flows, based on underlying contracts, credit spread and market interest. • For the initial fair value calculation, we determined that the valuation methodology and model applied by the Company are in accordance with the requirements of IFRS 13. • We recalculated the amortised cost value based on the effective interest method. • In connection with classification and measurement, we paid specific attention to the SPPI test performed by the Company for the loans issued. We re-performed a sample of SPPI and business model tests performed by the managing directors. Our sample was risk based and covered a range of different types of financial assets. As part of our testing we analysed supporting documents (mainly loan documentation such as loan agreements and term sheets) to evaluate whether the SPPI requirements in IFRS 9 are met. • With respect to the ECL calculation, we determined that the loans qualify as stage 1 loans by assessing the actual performance of the loans (i.e. no significant deterioration of credit risk). • We evaluated the financial position of the counterparties of loans issued by assessing observable data from rating agencies, developments in credit spreads, the latest available financial information and other publicly available data in order to assess if there are no adverse conditions present suggesting to classify the loans as stage 2 or stage 3 loans. • For the ECL, we assessed with assistance of our specialists that the impairment methodology and model applied by the entity were in accordance with the requirements of IFRS 9. We assessed that the FLI used by the client as part of the impairment methodology was appropriate considering the characteristics of the loan portfolio of Repsol International Finance B.V. • We assessed for a sample of financial instruments that the PD and LGD, applied by the managing directors, were based upon data from external data source providers and we

Key audit matter	*How our audit addressed the matter*
	have recalculated the impairment recorded in the financial statements. We found the managing directors' assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.
Existence of the loans issued *Note 9* We consider the existence of the loans issued, as disclosed in note 9 to the financial statements for a total amount of US$12,670,652,000, to be a key audit matter. Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of existence for users of the financial statements.	We performed the following procedures to support the existence of the loans issued to Repsol S.A. group companies: • We confirmed the existence of the loans with the counterparties on a sample basis. • We performed a substantive analytical procedure on the relationship between the interest expenses versus interest income, taken into consideration the applicable spread. • We compared interest receipts with bank statements Based on the procedures as set out above, we found no material differences.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the management board report; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The managing directors are responsible for the preparation of the other information, including the management board report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Repsol International Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held on 9 October 2017 representing a total period of uninterrupted engagement appointment of one year.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 36 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the managing directors

The managing directors are responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the managing directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing directors are responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing directors should prepare the financial statements using the going-concern basis of accounting unless the managing directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The managing directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 13 March 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.P.A. Corver RA

Appendix to our auditor's report on the financial statements 2018 of Repsol International Finance B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing directors.
- Concluding on the appropriateness of the managing directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the managing directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the managing directors with a statement that we have complied with relevant ethical requirements regarding independence, and that we have communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the managing directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.