



**REPSOL, S.A.**

Report on limited review of condensed  
interim consolidated financial statements  
at September 30, 2018



## REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Repsol, S.A. at the request of the Board of Directors:

### Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Repsol, S.A. (hereinafter, “the parent company”) and its subsidiaries (hereinafter, “the group”), which comprise the balance sheet as at September 30, 2018, the income statement and the statement of recognized profit and loss for the three-month and nine-month period then ended, and statement of changes in equity and cash flow statement for the nine-month period then ended, and related notes, all condensed and consolidated. The parent company’s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

### Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

### Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the nine months period ended September 30, 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.



### **Emphasis of Matter**

We draw attention to Note 2.1, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2017. Our conclusion is not modified in respect of this matter.

### **Other matters**

This report has been prepared at the request of the Board of Directors in relation to the publication of the third quarter financial report required by Article 120 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goiriena Basualdu

October 31, 2018

REPSOL Group

**2018** Interim consolidated  
financial statements:  
Nine-month period  
ended September 30,  
2018

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



**Repsol S.A. and investees comprising the Repsol Group**  
**Balance sheet at September 30, 2018 and December 31, 2017**

	Note	€ Million	
		9/30/2018	12/31/2017
<b>ASSETS</b>			
Intangible Assets:		4,870	4,584
a) Goodwill		2,934	2,764
b) Other intangible assets		1,936	1,820
Property, plant and equipment	4.1.1	25,297	24,600
Investment properties		67	67
Investments accounted for using the equity method	4.1.2	6,420	9,268
Non-current financial assets	4.1.3	1,630	2,038
Deferred tax assets		3,637	4,057
Other non-current assets		429	472
<b>NON-CURRENT ASSETS</b>		<b>42,350</b>	<b>45,086</b>
Non-current assets held for sale		53	22
Inventories	4.1.4	4,841	3,797
Trade and other receivables		6,280	5,912
a) Trade receivables		4,511	3,979
b) Other receivables		1,193	1,242
c) Current income tax assets		576	691
Other current assets		309	182
Other current financial assets	4.1.3	1,662	257
Cash and cash equivalents	4.1.3	5,301	4,601
<b>CURRENT ASSETS</b>		<b>18,446</b>	<b>14,771</b>
<b>TOTAL ASSETS</b>		<b>60,796</b>	<b>59,857</b>

	Note	€ Million	
		9/30/2018	12/31/2017
<b>EQUITY AND LIABILITIES</b>			
Capital		1,596	1,556
Share premium and reserves		27,161	25,694
Treasury shares and own equity investments		(632)	(45)
Net income for the period attributable to the parent		2,171	2,121
Dividends and other remuneration		-	(153)
Other equity instruments		1,014	1,024
<b>SHAREHOLDERS' EQUITY</b>	<b>4.1.5</b>	<b>31,310</b>	<b>30,197</b>
Equity instruments with changes through other comprehensive income		4	-
Hedging instruments		(124)	(163)
Translation differences		33	(241)
<b>OTHER ACCUMULATED COMPREHENSIVE INCOME</b>		<b>(87)</b>	<b>(404)</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>300</b>	<b>270</b>
<b>EQUITY</b>		<b>31,523</b>	<b>30,063</b>
Grants		3	4
Non-current provisions		5,165	4,829
Non-current financial debt	4.1.6	9,261	10,080
Deferred tax liabilities		1,067	1,051
Other non-current liabilities		1,856	1,795
<b>NON-CURRENT LIABILITIES</b>		<b>17,352</b>	<b>17,759</b>
Liabilities linked to non-current assets held for sale		9	1
Current provisions		538	518
Current financial liabilities	4.1.6	3,598	4,206
Trade payables and other payables:		7,776	7,310
a) Trade payables		3,152	2,738
b) Other payables		4,394	4,280
c) Current income tax liabilities		230	292
<b>CURRENT LIABILITIES</b>		<b>11,921</b>	<b>12,035</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>60,796</b>	<b>59,857</b>

Notes 1 to 7 are an integral part of the balance sheet.

**Repsol S.A. and investees comprising the Repsol Group**

**The income statement corresponding to the third quarter of 2018 and 2017 and the interim periods ending September 30, 2018 and 2017**

		€ Million			
	Note	Q3 2018	Q3 2017 <sup>(1)</sup>	9/30/2018	9/30/2017 <sup>(1)</sup>
Sales		13,229	9,954	36,648	30,059
Services rendered and other income		46	91	124	289
Changes in inventory of finished goods and work-in-progress goods		115	(39)	(75)	(8)
Reversal of impairment losses and gains on disposal of non-current assets		60	14	76	423
Other operating income		282	10	630	511
<b>OPERATING INCOME</b>		<b>13,732</b>	<b>10,030</b>	<b>37,453</b>	<b>31,274</b>
Supplies		(10,225)	(7,085)	(27,230)	(21,879)
Personnel expenses		(477)	(448)	(1,405)	(1,410)
Other operating expenses		(1,463)	(1,254)	(4,286)	(3,831)
Depreciation and amortization of non-current assets		(572)	(576)	(1,581)	(1,965)
Impairment losses recognized and losses on disposal of non-current assets		(61)	(14)	(220)	(279)
<b>OPERATING EXPENSES</b>		<b>(12,798)</b>	<b>(9,377)</b>	<b>(34,722)</b>	<b>(29,364)</b>
<b>OPERATING INCOME</b>	<b>4.2.2</b>	<b>934</b>	<b>653</b>	<b>2,731</b>	<b>1,910</b>
Finance income		55	46	151	135
Finance expenses		(173)	(142)	(471)	(460)
Change in fair value of financial instruments		40	3	172	41
Net exchange gains /(losses)		(3)	12	493	17
Impairment gains (losses) on disposal of financial instruments		(14)	(2)	(409)	(1)
<b>FINANCIAL RESULT</b>	<b>4.2.3</b>	<b>(95)</b>	<b>(83)</b>	<b>(64)</b>	<b>(268)</b>
SHARE OF RESULTS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD AFTER TAXES	4.1.2	201	130	394	242
<b>NET INCOME BEFORE TAX</b>		<b>1,040</b>	<b>700</b>	<b>3,061</b>	<b>1,884</b>
Income tax	4.2.4	(406)	(203)	(1,274)	(429)
<b>NET INCOME FROM CONTINUING OPERATIONS</b>		<b>634</b>	<b>497</b>	<b>1,759</b>	<b>1,455</b>
NET INCOME ATTRIBUTED TO NON-CONTROLLING INTERESTS FROM CONTINUING OPERATIONS		(9)	(18)	(28)	(31)
<b>NET INCOME ATTRIBUTED TO THE PARENT FROM CONTINUING OPERATIONS</b>		<b>625</b>	<b>479</b>	<b>1,759</b>	<b>1,424</b>
<b>NET INCOME ATTRIBUTED TO THE PARENT FROM DISCONTINUED OPERATIONS <sup>(2)</sup></b>	<b>4.2.5</b>	<b>-</b>	<b>48</b>	<b>412</b>	<b>159</b>
<b>TOTAL NET INCOME ATTRIBUTED TO THE PARENT</b>		<b>625</b>	<b>527</b>	<b>2,171</b>	<b>1,583</b>
<b>EARNINGS PER SHARE ATTRIBUTED TO THE PARENT</b>	<b>4.2.6</b>	<b>€ / share</b>		<b>€ / share</b>	
Basic		0.39	0.33	1.36	0.98
Diluted		0.39	0.33	1.36	0.98

(1) Includes the adjustments required to re-present the interim condensed consolidated financial Statements for the three and nine-month period ending September 30, 2017 (see Note 2 "Basis of presentation") as a result of the sale of the stake in Naturgy Energy Group, S.A. (see Note 1.3).

(2) Net of tax.

Notes 1 to 7 are an integral part of the consolidated income statement.

**Repsol S.A. and investees comprising the Repsol Group**  
**Statement of recognized income and expense for the third quarter of 2018 and 2017 and the interim periods ending**  
**September 30, 2018 and 2017**

	€ Million			
	Q3 2018	Q3 2017	9/30/2018	9/30/2017
<b>CONSOLIDATED NET INCOME <sup>(1)</sup></b>	<b>634</b>	<b>545</b>	<b>2,199</b>	<b>1,614</b>
For actuarial gains and losses	4	8	4	1
Investments accounted for using the equity method	(1)	(3)	14	1
Equity instruments with changes through other comprehensive income	-	1	-	1
Tax effect	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME. ITEMS NOT RECLASSIFIABLE TO INCOME</b>	<b>3</b>	<b>6</b>	<b>18</b>	<b>3</b>
<b>Cash flow hedges:</b>	<b>8</b>	<b>4</b>	<b>31</b>	<b>13</b>
Measurement gains/(losses)	3	(1)	14	(7)
Amounts transferred to the income statement	5	5	17	20
<b>Translation differences:</b>	<b>79</b>	<b>(670)</b>	<b>156</b>	<b>(2,276)</b>
Measurement gains/(losses)	126	(670)	203	(2,240)
Amounts transferred to the income statement	(47)	-	(47)	(36)
<b>Stake in investments for joint ventures and associates:</b>	<b>-</b>	<b>(34)</b>	<b>181</b>	<b>(133)</b>
Measurement gains/(losses)	-	(34)	-	(133)
Amounts transferred to the income statement	-	-	181	-
<b>Tax effect</b>	<b>(21)</b>	<b>(15)</b>	<b>(44)</b>	<b>(56)</b>
<b>OTHER COMPREHENSIVE INCOME. ITEMS RECLASSIFIABLE TO INCOME</b>	<b>66</b>	<b>(715)</b>	<b>324</b>	<b>(2,452)</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>69</b>	<b>(709)</b>	<b>342</b>	<b>(2,449)</b>
<b>TOTAL RECOGNIZED INCOME OF THE YEAR</b>	<b>703</b>	<b>(164)</b>	<b>2,541</b>	<b>(835)</b>

<sup>(1)</sup> Corresponds to the sum of the following headings in the income statement: "Income from continuing operations" and "Income from discontinued operations attributable to the parent".

Notes 1 to 7 are an integral part of the statement of recognized income and expense.

**Repsol S.A. and Investees comprising the Repsol Group**  
**Statement of changes in equity for the interim periods ending September 30, 2018 and 2017**

<b>Equity attributed to the parent and other equity instrument holders</b>								
€ Million	<b>Shareholders' Equity</b>							<b>Equity</b>
	Capital	Share premium, reserves and dividends	Treasury shares and own equity investments	Net income for the period attributable to the parent	Other equity instruments	Other accumulated comprehensive income	Non-controlling interests	
<b>Closing balance at 12/31/2016</b>	<b>1,496</b>	<b>24,232</b>	<b>(1)</b>	<b>1,736</b>	<b>1,024</b>	<b>2,380</b>	<b>244</b>	<b>31,111</b>
<b>Total recognized income/(expense)</b>	-	<b>2</b>	-	<b>1,583</b>	-	<b>(2,442)</b>	<b>22</b>	<b>(835)</b>
<b>Transactions with shareholders or owners</b>								
Increase/decrease share capital	31	(31)	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-
Treasury share transactions (net)	-	-	-	-	-	-	-	-
Increases / (Decreases) due to scope	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(189)	-	-	-	-	-	(189)
<b>Other changes in equity</b>								
Transfers between equity items	-	1,736	-	(1,736)	-	-	-	-
Subordinated perpetual bonds	-	(22)	-	-	(10)	-	-	(32)
Other changes	-	2	-	-	-	(1)	-	1
<b>Closing balance at 9/30/2017</b>	<b>1,527</b>	<b>25,730</b>	<b>(1)</b>	<b>1,583</b>	<b>1,014</b>	<b>(63)</b>	<b>266</b>	<b>30,056</b>
<b>Total recognized income/(expense)</b>	-	-	-	<b>538</b>	-	<b>(343)</b>	<b>9</b>	<b>204</b>
<b>Transactions with shareholders or owners</b>								
Increase/decrease share capital	29	(29)	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(5)	(5)
Treasury share transactions (net)	-	-	(44)	-	-	-	-	(44)
Increases / (Decreases) due to scope	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(153)	-	-	-	-	-	(153)
<b>Other changes in equity</b>								
Transfers between equity items	-	-	-	-	-	-	-	-
Subordinated perpetual bonds	-	(7)	-	-	10	-	-	3
Other changes	-	-	-	-	-	2	-	2
<b>Closing balance at 12/31/2017</b>	<b>1,556</b>	<b>25,541</b>	<b>(45)</b>	<b>2,121</b>	<b>1,024</b>	<b>(404)</b>	<b>270</b>	<b>30,063</b>
Impact of new standards (see Note 2.2.2)	-	(351)	-	-	-	(5)	-	(356)
<b>Adjusted closing balance</b>	<b>1,556</b>	<b>25,190</b>	<b>(45)</b>	<b>2,121</b>	<b>1,024</b>	<b>(409)</b>	<b>270</b>	<b>29,707</b>
<b>Total recognized income/(expense)</b>	-	<b>18</b>	-	<b>2,171</b>	-	<b>322</b>	<b>30</b>	<b>2,541</b>
<b>Transactions with shareholders or owners</b>								
Increase/decrease share capital	40	(40)	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-
Treasury share transactions (net)	-	(7)	(587)	-	-	-	-	(594)
Increases / (Decreases) due to scope	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(100)	-	-	-	-	-	(100)
<b>Other changes in equity</b>								
Transfers between equity items	-	2,121	-	(2,121)	-	-	-	-
Subordinated perpetual bonds	-	(22)	-	-	(10)	-	-	(32)
Other changes	-	1	-	-	-	-	-	1
<b>Closing balance at 9/30/2018</b>	<b>1,596</b>	<b>27,161</b>	<b>(632)</b>	<b>2,171</b>	<b>1,014</b>	<b>(87)</b>	<b>300</b>	<b>31,523</b>

Notes 1 to 7 are an integral part of the statement of changes in equity.



**Repsol S.A. and Investees comprising the Repsol Group**  
**Statement of cash flows for the interim periods ending September 30, 2018 and 2017**

	€ Million	
	9/30/2018	9/30/2017
<b>Net income before tax</b>	<b>3,061</b>	<b>1,884</b>
<b>Adjustments to net income:</b>	<b>1,491</b>	<b>1,858</b>
Depreciation of property, plant and equipment	1,581	1,965
Other adjustments to net income	(90)	(107)
<b>Changes in working capital</b>	<b>(1,193)</b>	<b>(115)</b>
<b>Other cash flows from / (used in) operating activities:</b>	<b>(540)</b>	<b>(359)</b>
Dividends received	341	334
Income tax (receipts)/payments	(702)	(470)
Other (receipts)/payments of operating activities	(179)	(223)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2,819</b>	<b>3,268</b>
<b>Payments on investments:</b>	<b>(3,546)</b>	<b>(1,918)</b>
Group companies and associates	(28)	(152)
Property, plant and equipment, intangible assets and investment property	(1,728)	(1,391)
Other financial assets	(1,790)	(375)
<b>Proceeds from divestments:</b>	<b>4,232</b>	<b>21</b>
Group companies and associates	3,831	(12)
Property, plant and equipment, intangible assets and investment property	19	29
Other financial assets	382	4
<b>Other cash flow</b>	<b>23</b>	<b>(4)</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>709</b>	<b>(1,901)</b>
<b>Receipts and (payments for) on equity instruments:</b>	<b>(844)</b>	<b>(222)</b>
Acquisition	(851)	(231)
Disposal	7	9
<b>Receipts and (payments for) on financial liabilities:</b>	<b>(1,421)</b>	<b>(539)</b>
Issued	14,047	7,930
Returns and redemption	(15,468)	(8,469)
<b>Payments for shareholder remunerations and other equity instruments</b>	<b>(297)</b>	<b>(332)</b>
<b>Other cash flows from financing activities:</b>	<b>(270)</b>	<b>(341)</b>
Interest payments	(333)	(412)
Other receipts / (payments for) of financing activities	63	71
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(2,832)</b>	<b>(1,434)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>4</b>	<b>(32)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>700</b>	<b>(99)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>4,601</b>	<b>4,687</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>5,301</b>	<b>4,588</b>
Cash and banks	3,445	4,435
Other financial assets	1,856	153

(1) Includes the cash flows from discontinued operations on dividends received from the stake in Naturgy, which in 2017 came to €201 million.

(2) Includes the cash flows from discontinued operations on the sale of the stake in Naturgy, which in 2017 came to €3,816 million.

Notes 1 to 7 are an integral part of the statement of cash flows.

## NOTES TO THE FINANCIAL STATEMENTS

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## (1) GENERAL INFORMATION

### 1.1 About the interim condensed consolidated financial statements

The accompanying interim condensed consolidated financial statements (hereinafter, interim financial statements) of Repsol, S.A. and its investees, comprising the Repsol Group, (hereinafter "Repsol", "Repsol Group" or "Group") present fairly the Group's equity and financial position at September 30, 2018, as well as the Group's consolidated earnings performance, the changes in net equity and the consolidated cash flows for the nine-month period ending on the above date.

These interim financial statements were approved by the Board of Directors of Repsol, S.A. at its meeting of October 30, 2018 and are available at [www.repsol.com](http://www.repsol.com).

### 1.2 About the Repsol Group

Repsol is a group of companies which is engaged in integrated operation of all activities relating to the oil and gas industry, including exploration, development and production of crude oil and natural gas, transportation of oil products, liquefied petroleum gas (LPG) and natural gas, refining, the production of a wide range of oil products and the retailing of oil products, oil derivatives, petrochemicals products, LPG, natural gas and liquefied natural gas (LNG).

Repsol Group's interim financial statements include investments in all its subsidiaries, associates and joint arrangements. Appendix I of the consolidated financial statements for 2017, details the main companies that form part of the Repsol Group and that formed part of the scope of consolidation on said date. Appendix I of these interim financial statements detail the main changes in the composition of the Group that have occurred during the first nine months of 2018.

The activities of Repsol, S.A. and its investee companies are subject to extensive regulations, which are provided in Appendix IV of the consolidated financial statements for 2017. Appendix II provides details of the main changes that have occurred during the first nine months of 2018.

### 1.3 Main changes in the Group's activities

#### ***Sale of stake in Gas Natural SDG, S.A.***

On May 18, 2018, Repsol, S.A. completed the sale of its stake in Gas Natural SDG, S.A.<sup>1</sup> (200,858,658 shares, representing 20.072% of the share capital) for the total price of €3,816,314,502, equivalent to €19 per share, pursuant to the provisions of the purchase agreement entered into with Rioja Bidco Shareholdings, S.L.U. on February 22, 2018.

#### ***Development of new gas and electricity businesses***

On June 6, 2018, an update to the Strategic Plan for 2018-2020 (hereinafter "Strategic Plan") was published. For further information, see the interim Management Report for the first semester 2018 and [www.repsol.com](http://www.repsol.com).

One of the three pillars of the Strategic Plan is the development of new businesses related to energy transition, with a particular focus on the gas business, the generation of low carbon emissions and the marketing of gas and electricity. For further information, see section "New businesses associated to energy transition" in Note 6.

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<sup>1</sup> Now known as Naturgy Energy Group, S.A., hereinafter "Naturgy" or "Naturgy Group".

## (2) BASIS OF PRESENTATION

### 2.1 General principles

These interim financial statements have been prepared using the accounting records of the investee companies that form part of the Group under the International Financial Reporting Standards adopted by the European Union (IFRS-EU) as of September 30, 2018, and, specifically, pursuant to the requirements set out in International Accounting Standard (IAS) 34 "*Interim financial information*", in addition to the other provisions of the applicable regulatory framework.

According to the provisions of IAS 34, these interim financial statements are prepared solely and exclusively to update the contents of the most recent consolidated financial statements published, placing an emphasis on new activities, events and circumstances that have occurred during the first nine months of the year and without duplicating information published previously in the consolidated financial statements for the previous year. To properly understand the information included in the accompanying interim financial statements, and given that they do not include the information that comprehensive financial statements prepared in line with IFRS-EU require, they should be read in conjunction with the Repsol Group's 2017 consolidated financial statements, which were approved by the Annual General Meeting of Repsol, S.A. held on May 11, 2018 and which are available at [www.repsol.com](http://www.repsol.com).

These interim financial statements are presented in millions of euros (unless otherwise indicated).

### 2.2 Comparative information

#### 2.2.1 Changes in the scope of consolidation

Following the sale of the stake in Naturgy (Note 1.3), income from said stake have been classified under "*Income from discontinued operations, net of taxes*". The income statement for the nine-month period ending September 30, 2017 has been restated for comparative purposes (see Notes 2.3 and 4.2.5).

#### 2.2.2 Application of new accounting standards

Different accounting standards that shall apply in the future<sup>1</sup> were issued during the first half of 2018, and other new accounting standards<sup>2</sup> have started to be applied, of which the following should be mentioned, due to their impact on these financial statements:

##### ***IFRS 9 Financial instruments***

IFRS 9 *Financial Instruments* came into force on January 1, 2018, with the option of not restating comparative information corresponding to 2017 used. The impact of its initial application has been recognized directly in equity, as follows:

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<sup>1</sup> In terms of the information provided in Note 2.5 of the consolidated financial statements for 2017 on the new mandatory standards applicable in the future, the following changes have occurred: i) adoption by the EU of Amendments to IFRS 9 *Prepayment features with negative compensation*, applicable from January 1, 2019 ii) adoption by the EU of IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, applicable from January 1, 2019 and ii) the release of the *Amendments to References to the Conceptual Framework in IFRS Standards*, applicable from January 1, 2020. To date, the Group has not identified any impacts resulting from the application of these regulatory changes.

<sup>2</sup> The standards applied effective January 1, 2018, are: i) IFRS 9 *Financial Instruments*; ii) IFRS 15 *Revenue from contracts with customers*; iii) Clarifications to IFRS 15 *Revenue from contracts with customers*; iv) Amendments to IFRS 4 *Application of IFRS 9 Financial Instruments* in conjunction with IFRS 4 *Insurance contracts*; v) Annual Improvements to IFRSs, *2014-2016 Cycle*; vi) Amendments to IFRS 2 *Clarifications of classification and measurement of share based payment transactions*; vii) Amendments to IAS 40 *Transfers of investment property*; and viii) IFRIC 22 *Foreign currency transactions and advance consideration*.

Impairment of assets:

The initial application of the new model of impairment due to credit risk based on expected loss<sup>1</sup> has entailed a negative impact of €433 million, mainly attributable to financial assets associated with Venezuela. This impact has been recognized under "*Retained earnings and other reserves*" (Note 4.1.5), broken down as follows

	12/31/2017	Adjustment to IFRS 9	01/01/2018
Investments accounted for using the equity method (Note 4.1.2)	9,268	(12)	9,256
Non-current financial assets <sup>(i)</sup>	2,038	(289)	1,749
Other non-current assets	472	(40)	432
Trade and other receivables	5,912	(73)	5,839
Current and non-current provisions	5,347	(19)	5,328
<b>Effect on net assets</b>		<b>(433)</b> <sup>(ii)</sup>	
Deferred tax assets		85	
<b>Effect on Equity</b>		<b>(348)</b>	

<sup>(i)</sup> Includes loans granted to joint ventures.

<sup>(ii)</sup> Accumulated losses are presented, as applicable, less the corresponding asset account.

Classification of financial assets:

Financial assets have been classified at January 1, 2018 as financial assets measured at fair value through profit or loss under "*Other comprehensive income*") according to the nature of the contractual cash flows of the assets and the business model applied by the company<sup>2</sup>.

Below is the reconciliation of the classification and measurement of financial assets under IAS 39 and IFRS 9 on the date of initial application:

Type of instrument	Classification 31/12/2017 (IAS 39)	Classification 1/1/2018 (IFRS 9)	Amount
Equity instruments <sup>(1)</sup>	Available for sale	FV <sup>2</sup> with changes through other comprehensive income	101
		FV <sup>2</sup> with changes through profit and loss	17
Derivatives	Held for trading	FV <sup>2</sup> with changes through profit and loss	79
Loans	Loans and receivables	Amortized cost	2,106
Cash and cash equivalents	Held to maturity investments	Amortized cost	4,593
Other instruments	FV <sup>2</sup> with changes through profit and loss	FV <sup>2</sup> with changes through profit and loss	62

<sup>(1)</sup> Portfolio of non-consolidated companies not accounted for using the equity method.

<sup>(2)</sup> FV: Fair value.

NOTE: Does not include "*Other non-current assets*" and "*Trade receivables and other receivables*" on the consolidated balance sheet, which, at December 31, 2017, came to €470 million (non-current) and €5,161 million (current), of which €1,028 million correspond

<sup>1</sup> The Group assumes the simplified approach to recognize credit loss expected during the lifetime of its trade receivables accounts, it has its own risk measurement models that it applies to its customers and expected loss estimation models based on the likelihood of default, the exposed balance and its estimated severity, considering the information available on each customer (sector of activity, payment performance, financial information, future outlook, etc.). This model employs a threshold of more than 180 days past due for it to be considered that impairment has occurred. These criteria are applied in the absence of objective evidence of a default, such as insolvency proceedings, etc. Other financial instruments, mainly financial guarantees and loans granted to joint ventures are monitored separately for the purposes of establishing when, as applicable, there may have been a significant deterioration in credit risk or a default. Concerning Venezuela, and faced with the circumstances in the country, the Group has used different severity scenarios to quantify expected losses under IFRS 9.

<sup>2</sup> Investments in debt held within a business model whose objective is to obtain contractual cash flows consisting exclusively of the principal and interest are usually measured at amortized cost. When these debt instruments are held within a business model whose objective is achieved by obtaining contractual cash flows of the principal and interest and the sale of these instruments, generally speaking, they are measured at fair value with changes through profit or loss with changes to other comprehensive income. All other investments in debt and equity will be measured at fair value with changes through profit or loss. However, it is possible to irreversibly decide to include subsequent changes in the fair value of certain equity instruments in "*Other comprehensive income*" and, in this case only dividends will normally be recognized afterwards in income.

to current accounts receivable on commodities sales agreements, which are measured at fair value with changes through profit and loss; the remainder corresponds mainly to trade accounts receivable measured at amortized cost.

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.

Hedge accounting and derivatives:

The Group has chosen to apply IFRS 9 for the accounting of its hedging activities, despite the standard allowing for the continued application of IAS 39 until the IASB completes its “*Dynamic risk management*” project, on account of the greater flexibility provided by the new standard.

The new standard: (i) removes the requirement concerning retrospective assessment in terms of assessing the continuity of the hedge; (ii) makes it possible to mitigate accounts asymmetries caused by *commodities* provisioning and marketing agreements and derivative instruments used as an economic hedge for them, by applying the fair value option to these agreements, and; (iii) provides greater flexibility in terms of hedge accounting, specifically in terms of instruments that can be used as hedge instruments and the transactions that can be hedged.

The first application of IFRS 9 has had no impact on hedge accounting.

***IFRS 15 Revenue from contracts with customers***

IFRS 15 *Revenue from contracts with customers* and the amendments to the other IFRS affected as a result came into force on January 1, 2018, without the need to restate information corresponding to 2017 used for the purposes of comparison.

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and applies to all revenue generated from customer contracts, unless said contracts are within the scope of other standards. Pursuant to the new accounting requirements, revenue from each different contractual obligation must be identified, classified and accrued separately. Among other issues, the standard also implements the accounting criteria for capitalizing the incremental costs of acquiring a contract with a customer.

The Group has reviewed the type of customer contracts (mainly for the sale of crude oil, gas, oil products, chemicals and lubricants and specialized products) and identified the following impacts deriving from the application of IFRS 15, which have been recognized under “*Retained earnings and other reserves*” on the balance sheet (see Note 4.1.5):

	12/31/2017	Adjustment to IFRS 15	01/01/2018
Other non-current liabilities <sup>(1)</sup>	(1,795)	(20)	(1,815)
Trade payables and other payables <sup>(1)</sup>	(7,310)	(4)	(7,314)
Investments accounted for using the equity method (Note 4.1.2)	9,268	9	9,277
<b>Effect on net assets and liabilities</b>		<b>(15)</b>	
Deferred tax asset		6	
<b>Effect on Equity</b>		<b>(9)</b>	

<sup>(1)</sup> In terms of bulk liquefied petroleum gases (LPG) supply contracts, the two following distinct performance obligations have been identified: (i) the sale of liquefied gas, which occurs at a specific point in time; and (ii) maintenance services, which are provided generally over the life span of the contract, giving rise to a contractual liability shown under “*Other non-current liabilities*” and “*Trade payables and other payables*” for outstanding services and that, as of January 1, 2018, came to €20 million and €4 million respectively, and accumulated losses of €18 million after tax, recognized under “*Retained earnings and other reserves*” (see Note 4.1.5).

In line with specific Upstream contracts, in payment of the Group's taxes, production deliveries are made to national oil companies which, once control has been transferred, can be sold freely on the market. Based on the economic substance of the transactions, the monetary value of these production volumes is shown

under "Sales" on the income statement (formerly under "Services rendered and other income"). The amounts recognized in the first nine months of 2018 under "Sales" in this connection came to €450 million.

In terms of the incremental costs of acquiring a contract with a customer, they are considered as the costs that the Group previously recognized under "Intangible assets" on the balance sheet as flagging costs. The net balance of this item at January 1, 2018, came to €26 million.

Lastly, with regard to additional disclosures of information, the itemization of revenue from ordinary operations (corresponding to the sum of the "Sales" and "Services rendered and other income") has been included by geographic area (see Note 4.2.1).

### **2.2.3 Changes to accounting estimates and judgments**

The preparation of interim financial statements calls for estimates and judgements to be made that affect the measurement of recognized assets and liabilities, the presentation of contingent assets and liabilities and income and expense recognized over the period. The results may be significantly affected depending on the estimates made.

These estimates are made on the basis of the best information available, as described in Note 3 "Accounting estimates and judgements" to the consolidated financial statements for 2017.

In 2018, a change in the accounting estimate was made prospectively in relation to the depreciation of certain assets relating to hydrocarbon exploration and production operations. Since January 1, 2018, the production unit criterion (see "Activity-specific accounting policies" in Note 3 to the 2017 consolidated financial statements) has been applied considering all the amounts of reserves expected to be produced with the investments made (proven reserves<sup>1</sup> plus probable reserves, or proven reserves plus probable developed reserves). Repsol considers that the new amortization ratio will provide a better reflection of the consumption pattern of the economic benefits of this class of assets, having been applied from January 1 with the availability of the necessary reserves information and the completion of the relevant asset performance analyses. The estimated effect of this change on income of the first nine months of 2018 amounts to €252 million<sup>2</sup>.

### **2.2.4 Seasonality**

The businesses of liquefied petroleum gas (LPG) and of natural gas are the Group activities involving the highest degree of seasonal variation due to their connection with climate conditions, with greater activity in the winter and lower activity in the summer of the northern hemisphere.

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<sup>1</sup> The classification of reserves is as follows:

Proven reserves: Proven reserves (scenario 1P) are amounts of crude oil, natural gas and liquefied natural gas, which, based on the information available at the time, are expected to be recovered with a reasonable level of certainty. There must be a likelihood of at least 90% that the amounts recovered will be equal to or in excess of the 1P estimate.

Probable reserves: Probable reserves are additional reserves, which, added to proven reserves, constitute scenario 2P. There must be a likelihood of at least 50% that the amounts recovered will be equal to or in excess of the 2P estimate. This scenario represents the best estimate of reserves.

Repsol applies the criteria established under the "SPE/WPC/AAPG/SPEE Petroleum Resources Management System", where the full definitions can be found.

<sup>2</sup> The future impact (distribution of depreciation over time) will depend on their performance and the variation in estimated reserves.

## 2.2.5 Earnings per share

In accordance with accounting standards, earnings per share for the third quarter of 2017 and the interim period ending September 30, 2017 have been restated, as the average number of outstanding shares considered in the calculation should be based on the new number of shares issued after the capital increase carried out as part of the compensation scheme to stockholders known as "*Repsol Flexible Dividend*", described in Note 4.1 "*Equity*".

## 2.3 Information by business segments

### *Definition of the Group's presentation model and segments*

The segment reporting disclosed by the Group in Note 3 is presented in accordance with the disclosure requirements of IFRS 8 *Operating segments*.

The definition of the Repsol Group's business segments is based on the delimitation of the different activities performed and from which the Group earns revenue or incurs expenses, as well as on the organizational structure approved by the Board of Directors for business management. Using these segments as a reference point, Repsol's executive personnel team (the Corporate Executive, E&P and Downstream Committees) analyzes the main operating and financial indicators in order to make decisions about segment resource allocation and to assess how the Company is performing.

The operating segments of the Group are:

- *Upstream*, corresponding to exploration and production of crude oil and natural gas reserves and;
- *Downstream* corresponds mainly to the following activities: (i) refining and petrochemicals, (ii) trading and transportation of crude oil and oil products, (iii) marketing of oil products, petrochemicals and LPG, (iv) the marketing, transport and regasification of natural gas and liquefied natural gas (LNG).

Finally, *Corporate and others* includes operations not allocated to the above business segments and, in particular, the operating expenses of the Corporation and financial results, in addition to intersegment consolidation adjustments.

The Group has not grouped any segments for reporting purposes.

In presenting the results of its operating segments Repsol includes the results of its joint ventures<sup>1</sup> and other companies managed as such<sup>2</sup> in accordance with the Group's stake, considering its operational and economic metrics in the same manner and with the same detail as for fully consolidated companies. Thus, the Group considers that the nature of its businesses and the way in which results are analyzed for decision-making purposes is adequately reflected.

In addition, the Group, considering its business reality and in order to make its disclosures more comparable with those in the sector, utilizes as a measure of segment profit the so-called Adjusted Net Income, which corresponds to net income from continuing operations at "*Current cost of supply*" or CCS after taxes and minority interests and not including certain items of income and expense ("*Special Items*"). Net finance cost is allocated to the *Corporate and other* segment's Adjusted Net Income/Loss.

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<sup>1</sup> In the segment reporting model, joint ventures are consolidated proportionally in accordance with the Group's stake. See Note 12 "*Investments accounted for using the equity method*" and Appendix I of the 2017 consolidated financial statements, where the Group's main joint ventures are identified.

<sup>2</sup> Corresponds to Petrocarabobo, S.A. (Venezuela), an associate.



The Current Cost of Supply (CCS), which is commonly used in this industry to present the results of *Downstream* businesses which must work with huge inventories subject to continual price fluctuations, is not an accepted European accounting regulation. Yet it does allow for comparability with other sector companies and for monitoring businesses independently of the impact of price variations on their inventories. Under Income at CCS, the cost of volumes sold during the reporting period is calculated using the costs of procurement and production incurred during that same period. As a result, Net Income does not include the so-called Inventory Effect. This Inventory Effect is presented separately, net of tax and non-controlling interests, and corresponds to the difference between Income at CCS and that arrived at using the Weighted Average Cost approach, which is the method used by the Group to determine its earnings in accordance with European accounting regulations.

Furthermore, Adjusted Net Income does not include so-called Special Items, i.e. certain material items whose separate presentation is considered appropriate in order to facilitate analysis of the ordinary business performance. It includes gains/losses on disposals, staff restructuring charges, asset impairment gains/losses and provisions for contingencies and other significant income or expenses. Special items are presented separately, net of taxes and non-controlling interests.

For each of the figures shown by segment (Adjusted net income, Inventory effect, Special items, etc.), in Appendices III and IV, the items and concepts that facilitate their reconciliation with the corresponding figures prepared in line with IFRS-EU are indicated.

Following the agreement reached on February 22, 2018 for the sale of the 20.072% stake in Naturgy Energy Group. S.A. (see Note 1.3), its income prior to said date has been classified as "*Discontinued Operations*" under "*Special items*", (previously classified under "*Corporate and other*"), restating the figures published in the interim financial statements for the nine months ending September 30, 2017 used for comparative purposes.

The way in which the results of exchange rate fluctuations on tax positions in currencies other than the functional currency are presented has changed during the period, and these changes are reflected in Special Items to facilitate the monitoring of business results and align us with best practices in the industry. The comparative figures for the first half of 2017 have not been restated, given their immateriality (see Appendix IV).

### (3) RESULTS AND SEGMENT REPORTING<sup>1</sup>

#### 3.1 Main figures and performance indicators

Financial indicators <sup>(1)</sup>	9M 2018	9M 2017	Our business performance <sup>(1)</sup>	9M 2018	9M 2017
<b>Results</b>			<b>Upstream</b>		
Operating income	3,096	2,407	Net daily hydrocarbon production (kboe/d)	713	688
Adjusted net income	1,720	1,543	Net daily liquids production (kbb/d)	261	254
Net income	2,171	1,583	Net daily gas production (kboe/d)	452	433
Earnings per share (€/share)	1.36	0.98	Average crude oil realization price (\$/bbl)	65.1	47.1
EBITDA	5,833	4,715	Average gas realization price (\$/kscf)	3.3	2.9
Investments	2,019	1,843	EBITDA	3,577	2,421
Capital employed <sup>(2)</sup>	33,827	33,817	Adjusted net income	1,015	487
ROACE (%) <sup>(3)</sup>	8.2	6.5	Cash flow from operations	2,376	1,391
			Investments	1,423	1,373
<b>Cash and debt</b>			<b>Downstream</b>		
Cash flow from operations	3,351	3,577	Distillation utilization Spanish Refining (%)	92.4	92.4
Free cash flow	5,200	1,676	Conversion utilization Spanish Refining (%)	105.6	101.4
Cash flow generated	3,723	708	Refining margin indicator in Spain (\$/Bbl)	6.9	6.8
Net debt (ND)	2,304	6,972	Oil product sales (kt)	38,520	38,513
ND / EBITDA (x times) <sup>(4)</sup>	0.3	1.1	Petrochemical product sales (kt)	1,935	2,148
ND / Capital employed (%)	6.8	18.8	LPG sales (kt)	980	997
Debt interest / EBITDA (%)	3.7	5.7	Gas sales in North America (TBtu)	388.8	375.7
<b>Shareholder remuneration</b>			EBITDA	2,390	2,422
Shareholder remuneration (€/share) <sup>(5)</sup>	0.87	0.76	Adjusted net income	1,098	1,431
			Cash flow from operations	986	1,979
			Investments	560	445
<b>Stock market indicators</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Other indicators</b>	<b>9M 2018</b>	<b>9M 2017</b>
Share price at period-end (€/share)	17.2	15.6	<b>People</b>		
Period average share price (€/share)	15.9	14.3	No. employees <sup>(6)</sup>	25,647	25,490
Market capitalization at period-end (€ million)	27,398	23,812	New employees <sup>(7)</sup>	3,152	2,580
<b>Macroeconomic environment</b>	<b>9M 2018</b>	<b>9M 2017</b>	<b>Health and Environment</b>		
Brent average (\$/bbl)	72.1	51.8	Process safety (PSIR) <sup>(8)</sup>	0.37	0.62
WTI average (\$/bbl)	66.8	49.4	Personal safety (TFR) <sup>(9)</sup>	1.71	1.43
Henry Hub average (\$/MBtu)	2.9	3.2	Annual CO <sub>2</sub> emissions reduction (Mt) <sup>(10)</sup>	0.266	0.230
Exchange rate average (\$/€)	1.19	1.11			

**NOTE:** Non-financial figures and operating indicators are not revised by the auditor.

<sup>(1)</sup> Where applicable, figure shown in million euros.

<sup>(2)</sup> Capital employed from continuing operations.

<sup>(3)</sup> ROACE has been annualized by extrapolating data for the period. Excludes discontinued operations.

<sup>(4)</sup> EBITDA has been annualized by extrapolating data for the period.

<sup>(5)</sup> Fixed price guaranteed by Repsol for the free-allocation rights awarded under the "Repsol Flexible Dividend" program (see Note 4.1.5).

<sup>(6)</sup> Number of employees that belong to companies in which Repsol establishes people management policies and guidelines, irrespective of the type of contract (permanent, temporary, partially retired, etc.).

<sup>(7)</sup> Only fixed or temporary employees with no prior working relationship with the company are considered to be new hires. Some 40% of new employees in 2018 and 30% in 2017 had permanent contracts.

<sup>(8)</sup> *Process Safety Incident Rate (PSIR)*: number of process safety incidents classed as TIER<sub>1</sub> and TIER<sub>2</sub>, according to "API Recommended Practise 754 (Second Edition – April 2016) - Process Safety Performance Indicators for the Refining and Petrochemical", accumulated during the period per million hours worked on process activities. The figure for 2017 is the annual figure.

<sup>(9)</sup> *Integrated Total Frequency Rate (TFR)*: total number of cases with personal consequences (fatalities, loss of time, medical treatment and restricted work) accumulated during the period, per million hours of work. The figure for 2017 is the annual figure.

<sup>(10)</sup> Reduction of CO<sub>2</sub> compared with the baseline of 2010.

<sup>1</sup> All the information provided in this Note, unless stated otherwise, has been produced pursuant to the Group's reporting model (see Note 2.3). Some of the figures are classified as Alternative Performance Measures (APMs) in accordance with European Securities Markets Authority (ESMA) guidelines (for further information, see Appendices III and IV) and at [www.repsol.com](http://www.repsol.com).

### 3.2 Macroeconomic environment

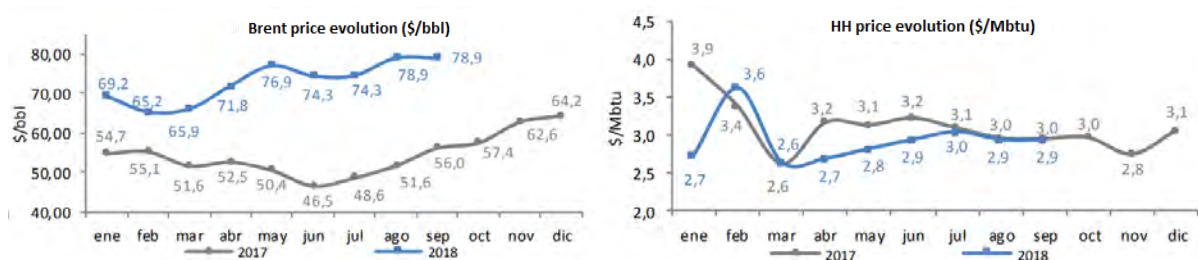
The **global economy** rebounded at the end of 2017 and start of 2018, at which time there was a change in trend. The slowdown is still modest, with the pace of global progress over the third quarter of 2018 still clearly above that seen in 2016 and preceding years. However, the difference between countries is greater and downside risks for economic activity are gaining prominence.

Therefore, while activity levels in the eurozone were disappointing at the start of the year, in the USA, the pace of growth has surprised on the upside, driven by a pro-cyclical fiscal policy. Against a backdrop of interest hikes in the US, the renewed strength of the **dollar** and lower liquidity worldwide, the most vulnerable emerging economies are suffering outflows of capital and significant depreciations in their currencies. Although activity in emerging countries is lower than expected on account of the tightening of financial conditions, there has been no widespread contagion. On the contrary, emerging countries that produce crude oil are riding on the back of rising export prices.

Nonetheless, according to estimates made by the International Monetary Fund (IMF) (*World Economic Outlook* October 2018), world growth is expected to reach 3.7% in 2018, the same as 2017 as a whole, and 3.7% also in 2019.

That said, as indicated, downside risks in this baseline scenario are now higher. On the one hand, the protectionist measures introduced recently are already disrupting trade and, should they worsen, may considerably slow activity worldwide. In addition, inflation is relatively contained in the US at the moment; however, a sharper upturn could force a faster return of monetary policy to normal, inflicting more damage on emerging nations that depend on financing in dollars. Other adverse developments, such as financial problems in Italy or China, could result in a significant global slowdown.

Change in the average monthly Brent and Henry Hub price



On the **crude oil** market, prices have continued to increase throughout 2018, with Brent crude prices hitting around \$85 per barrel (\$/bbl), 30% up on the price at the end of 2017 and 200% up on the lows seen in 2016. The balance suggests that the market is relatively stable in terms of supply and demand, despite inventories in the OECD continuing to fall. The OPEC continues its policy at the end of 2016 and although average compliance is around 120% to date in 2018, over the course of the year the commitment to cutbacks has seen levels of compliance in excess of 170%. These high levels of compliance can be traced in large part to the massive decline in production in Venezuela, with a decrease of almost 800 thousand Bbl/d in just one year.

On the other hand, the reimposition of US sanctions on Iran, following the former's exit from the nuclear agreement at the start of May, has seen tension on the market increase. Sanctions take effect on November 4 and many buyers of Iranian crude are looking for alternatives, which has weakened the country's production and export levels.

In short, the current situation involves a relatively balanced market, although there is a slight deficit on the supply side, which is keeping prices stable above \$80/bbl. At the end of the first nine months of the year, the Brent price stood at an average of US\$72.1/bbl, while the crude oil WTI price averaged out at US\$66.8/Bbl, a difference of US\$5.3/bbl between the two.

With respect to the US **natural gas** price, the Henry Hub averaged out at \$2.9/mmBtu in the first nine months of 2018, 8% down on the same period in 2017. Despite an increase in production, the boost in domestic demand (mainly, electricity generation), the maintenance of inventories well below the average over the past five years and the strong pace of exports, they served as a support to end the quarter with a tighter balance.

### 3.3 Results, cash flow and financial position

The environment in which we have operated our businesses during the first nine months of 2018 (hereinafter 9M18), compared to the same period of 2017 (hereinafter, 9M17), is marked by higher oil prices (Brent +39%, notably growing in the second quarter), lower gas prices (Henry Hub -8%), and a weaker dollar against the euro (€/\$1.19 vs. 1.11 in 9M17); on the other hand, the Refining margin indicator has remained high (around \$7/bbl), although with sharp drops in international indicators of the petrochemicals margin as a result of the increase in naphtha prices.

Against this backdrop, Repsol has obtained **adjusted net income** of €1,720 million (+11% vs. 9M17, driven by the notable improvement in *Upstream* results), which, combined with the gains generated by the divestment in Naturgy and the revaluation of inventories, **net income** has come to €2,171 million (+37% vs. 9M17). **EBITDA** came to €5,833 million (+24% vs. 9M17) and **free cash flow** to €5,200 million (+210% vs. 9M17, including €3,816 million from the sale of Naturgy). The period ended with a substantial decline in **net debt** to €2,304 million (€4,668 million less than at the end of 9M17).

#### 3.3.1 Results

Results of the period	€ Million	
	9/30/2018	9/30/2017
Upstream	1,015	487
Downstream	1,098	1,431
Corporate and other	(393)	(375)
<b>ADJUSTED NET INCOME</b>	<b>1,720</b>	<b>1,543</b>
Inventory effect	269	(50)
Special items	182	90
<b>NET INCOME</b>	<b>2,171</b>	<b>1,583</b>

<sup>(1)</sup> Includes the adjustments required to re-present the interim financial statements for the nine-month period ending September 30, 2017 (see Note 2 “Basis of presentation”) as a result of the sale of the stake in Naturgy (see Note 1.3).

#### *Upstream*

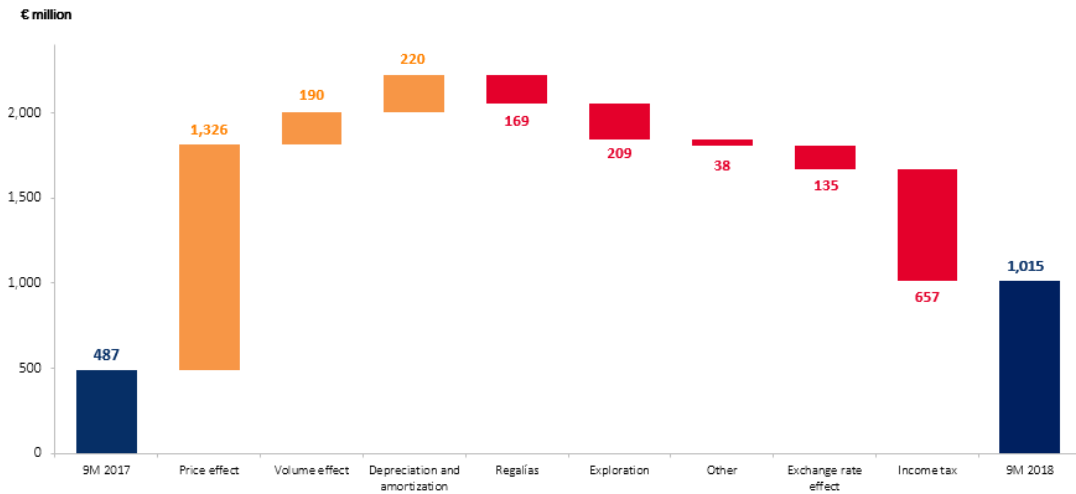
**Average production** came to 713 Kboe/d in the first nine months of 2018, representing an increase of 4% (25 Kboe/d) compared to the same period in 2017. This increase is due in large part to production in Libya, the commissioning of organic growth projects (TROC and *Juniper* in Trinidad and Tobago, *Shaw* and *Cayley* in the United Kingdom, *Reggane* in Algeria, *Sagari* in Peru and *Kinabalu* in Malaysia), in addition to the acquisition of the *Visund* field (Norway) and the commissioning of new wells in *Marcellus* (US). The foregoing was offset by the decrease in the production of gas in Venezuela and the 2017 sale of the SK field (Russia).

In terms of **exploratory activities**, during the period, 15 exploratory wells and 1 appraisal well were drilled, 4 with positive results (3 exploratory wells in Colombia and one appraisal well in Russia), 10 with negative results (in Algeria, Aruba, Bolivia, Colombia, 2 in the USA, Gabon, Malaysia, Norway and Romania) and 2 under evaluation (Norway and Malaysia). At the end of the period, 3 exploratory wells were still ongoing (Bolivia, Colombia and Indonesia).

**Adjusted net income** in the *Upstream* segment amounted to €1,015 million, well up on 9M17 (+108%). This improvement was due to the increase in prices of crude oil and gas (38% and 16%, respectively) and the higher volumes sold. In addition, the impact of the change in estimating depreciation of productive assets must be taken into account (see Note 2.2.3). These positive effects are partially offset by higher taxes as a result of the improvement in operations, the negative impact of the exchange rate on account of the

weakening of the dollar and the increase in exploration costs resulting from the amortization and depreciation of wells and investments with a slim probability of success.

### Upstream adjusted net income variation



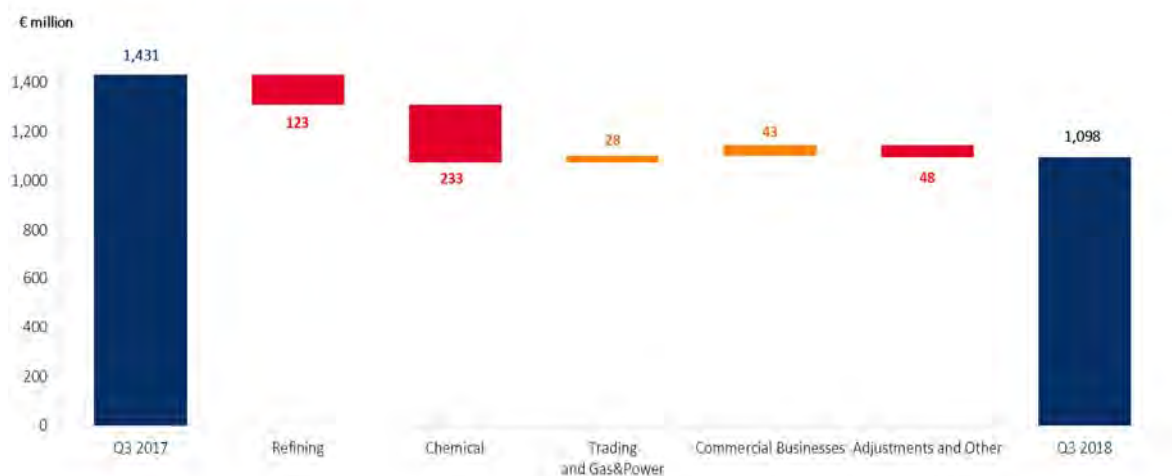
EBITDA for the *Upstream* segment came to €3,577 million, up 48% on the same period the previous year, driven by the increase in operating income and notably by the improvement in operations in Libya, Norway, UK, Brazil, Malaysia and Algeria.

**Investments** in the first nine months of 2018 (€1,423 million) are up 4% on the same period the previous year. Investments have been undertaken mainly in production and/or development assets in the US, Canada, Norway and Trinidad and Tobago, with the acquisition of 7.7% of the *Visund* field in Norway worth particular mention.

### Downstream

**Adjusted net income** for the first nine months of 2018 amounted to €1,098 million, compared to €1,431 million in the same period of 2017.

### Downstream adjusted net income variation



(\*) It mainly includes the effect of negative consolidation adjustments in order to remove intercompany results between the Downstream business companies.

Change in result due mainly to:

- In **Refining**, despite the strong production margins in Spain being preserved, results have been worse due to the impact of the weakening of the dollar, lower margins in Peru (affected by price mechanisms in place in the country) and higher fixed costs.
- In **Chemicals**, lower results are explained by the weakening of the international environment, mainly due to the increase in naphtha prices, as well as lower sales and higher variable costs due to operating incidents and downtime for maintenance.
- In **Trading and Gas & Power**, better results have been obtained mainly from better margins and lower transport costs in gas trading in North America.
- In **Commercial Businesses**, the improvement in results can mainly be attributed to *Marketing*, (driven by the improvement in the margins and no significant changes in sales) and *LPG* (due to the higher volumes sold as a result of lower temperatures).

The **EBITDA** in the *Downstream* segment came to €2,390 million, on part with 9M17.

Capital **expenditure** amounted to €560 million (26% up on 9M17). The highlights investments were undertaken to enhance energy efficiency and safety and the environment, and for multi-year shutdowns of refineries in Spain, the maintenance of Chemical plants, the remodeling of the gasoline block in the Pampilla refinery in Peru and the service station expansion project in Mexico.

#### Corporate and other

Accumulated results for the first nine months of 2018 came to -€393 million, (-€375 million in the same period the previous year). In *Corporate*, costs have remained stable, despite increases resulting from digitalization projects. In terms of the financial result, lower debt interest and better results from positions (currency and treasury stock) are worth particular mention. These positive effects have been offset by the impact of the negative consolidation adjustments to eliminate income from intragroup transactions between the Upstream and Downstream segments, which have still not been passed with third parties.

**Adjusted net income** amounted to €1,720 million (vs. €1,543 million in 9M17). This figure includes income tax expense of €1,105 million, which amounts to an **effective tax rate** of 39% (vs. 26% in 9M17, mainly due to the increase in income in Upstream businesses with high tax rates).

The **Inventory effect** amounted to €269 million, due to upward price trends in terms of crude oil and oil products during the period.

**Special items** amounted to €182 million, mainly attributable to: i) the gains from the sale of the stake in Naturgy Energy Group, S.A. (+€344 million), ii) extraordinary allowances in Venezuela (-€497 million provisioned for recovery risk on loans, tax assets and investments) and iii) extraordinary income on exchange rate differences (+€382 million for the impact of the exchange rate on financial and tax positions due to a reclassification of translation differences relating to cancelled exploratory assets).

<i>€ Million</i>	<b>9M 2018</b>	<b>9M 2017</b>
Divestments	59	21
Workforce restructuring charges	(42)	(49)
Impairment	(125)	(25)
Provisions and other	(122)	(16)
Discontinued operations (see Note 2.2)	412	159
<b>TOTAL</b>	<b>182</b>	<b>90</b>

As a result of the foregoing, **net income** amounted to €2,171 million, up 37% on the same period of 2017.

PERFORMANCE INDICATORS	2018	2017
Return on average capital employed (ROACE) (%)	8.2 <sup>(1)</sup>	6.5
Earnings per share (€/share) <sup>(2)</sup>	1.36	0.98

<sup>(1)</sup> Excluding discontinued operations (Naturgy); including them, ROACE comes to 9%.

<sup>(2)</sup> Further information in 4.2.6.

### 3.3.2 Cash flow

CASH FLOW FOR THE PERIOD	9M 2018	9M 2017
<b>EBITDA</b>	<b>5,833</b>	<b>4,715</b>
Changes in working capital	(1,475)	(536)
Dividends received <sup>(1)</sup>	20	203
Income tax receipts/(payments)	(756)	(507)
Other receipts/(payments) of operating activities	(271)	(298)
<b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>3,351</b>	<b>3,577</b>
Payments on investments	(2,005)	(1,931)
Proceeds from divestments	3,854	30
<b>II. CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>1,849</b>	<b>(1,901)</b>
<b>FREE CASH FLOW (I+II)</b>	<b>5,200</b>	<b>1,676</b>
Net interest	(336)	(414)
Payments for dividends and remuneration of other equity instruments	(297)	(332)
Treasury shares	(844)	(222)
<b>CASH GENERATED IN PERIOD</b>	<b>3,723</b>	<b>708</b>

<sup>(1)</sup> Includes cash flow from discontinued operations on dividends received from the stake in Naturgy, which in 2017 came to €200 million.

**Cash flow from operations** in the first nine months of 2018 (€3,351 million) was down on the same period in 2017: the increase in the EBITDA of *Upstream* businesses was offset by the increase in working capital in *Downstream* (due to the increase in inventories as a result of the rise in prices), higher tax payments and the lack of dividends received from Naturgy.

Cash flow from investment activities (€1,849 million), mainly reflects the maintenance of investment levels from the previous year and the cash obtained on the divestment of Naturgy (€3,816 million).

**Free cash flow** in the first nine months of 2018 amounted to €5,200, well up on the €1,676 of the same period of 2017, mainly attributable to the improvement in EBITDA and the divestment from Naturgy.

As a result of the foregoing, having fulfilled the payment of financing costs (€336 million), shareholder remuneration (€297 million) and the acquisition of treasury shares (€844 million, see section 4.1.5), the **cash generated** came to €3,723 million, 427% up on 2017.

### 3.3.3 Financial position

**Net Debt** at September 30, 2018 stood at €2,304 million, significantly lower than at September 30, 2017, €6,972 million (and December 31, 2017, €6,267 million), due to the substantial cash flow generated by the businesses and the divestment in Naturgy.

Group **liquidity**, including committed and undrawn credit facilities, stood at €9,345 million at September 30, 2018, which is enough to cover its short-term debt maturities by a factor of 2.88. Repsol had unused credit lines amounting to €2,346 million and €2,503 million at September 30, 2018 and December 31, 2017, respectively.

### 3.4 Information by geographic area

The geographic distribution of the main figures in the first nine months of the year is as follows:

€ Million	Nine months accumulated							
	Operating income		Adjusted net income		Operating investments		Capital employed <sup>(2)</sup>	
	2018	2017	2018	2017 <sup>(1)</sup>	2018	2017	2018	2017 <sup>(1)</sup>
<b>Upstream</b>	<b>1,876</b>	<b>683</b>	<b>1,015</b>	<b>487</b>	<b>1,423</b>	<b>1,373</b>	<b>21,503</b>	<b>22,163</b>
Europe, Africa and Brazil	1,198	434	589	220	316	269	-	-
Latin America-Caribbean	520	405	373	266	219	376	-	-
North America	223	(70)	172	(50)	471	368	-	-
Asia and Russia	377	186	216	112	142	148	-	-
Exploration and other	(442)	(272)	(335)	(61)	275	212	-	-
<b>Downstream</b>	<b>1,427</b>	<b>1,920</b>	<b>1,098</b>	<b>1,431</b>	<b>560</b>	<b>445</b>	<b>10,927</b>	<b>9,477</b>
Europe	1,418	1,835	1,082	1,381	457	341	-	-
Rest of World	9	85	16	50	103	104	-	-
<b>Corporate and other</b>	<b>(207)</b>	<b>(196)</b>	<b>(393)</b>	<b>(375)</b>	<b>36</b>	<b>25</b>	<b>1,397</b>	<b>2,177</b>
<b>TOTAL</b>	<b>3,096</b>	<b>2,407</b>	<b>1,720</b>	<b>1,543</b>	<b>2,019</b>	<b>1,843</b>	<b>33,827</b>	<b>33,817</b>

**NOTE:** To reconcile these figures with IFRS-EU figures, see Appendices III and IV.

<sup>(1)</sup> Includes the adjustments required to re-present the interim financial statements for the nine-month period ending September 30, 2017 (see Note 2 "Basis of presentation") as a result of the sale of the stake in Naturgy (see Note 1.3).

<sup>(2)</sup> Includes capital employed from continuing operations.

### (4) MAIN CHANGES IN THE FINANCIAL STATEMENTS

This section outlines the most significant changes affecting the balance sheet and income statement headings in the period.

#### 4.1 Balance Sheet

##### 4.1.1 Property, plant and equipment

Investments during the period came to €2,019 million following the Group's reporting model and their breakdown by geographic area can be found in Note 3.4 "Information by geographic area".

##### 4.1.2 Investments accounted for using the equity method

Repsol uses the equity method to account for the investment and income from joint ventures and associates in which it holds a stake. These investments are reflected in the Group's interim financial statements as follows:

	€ Million			
	Carrying value of investment		Share of results <sup>(1)</sup>	
	9/30/2018	12/31/2017	9/30/2018	9/30/2017
Joint ventures	6,344	5,969	404	230
Associates	76	3,299	(10)	12
<b>TOTAL</b>	<b>6,420</b>	<b>9,268</b>	<b>394</b>	<b>242</b>

<sup>(1)</sup> Corresponds to the net income for the period from continuing operations. Does not include "Other comprehensive income" of €146 million in 2018 (€143 million corresponding to joint ventures and €3 million corresponding to associates) and of €-858 million in 2017 (-€704 million corresponding to joint ventures and -€154 million to associates).

<sup>(2)</sup> Includes the adjustments required to re-present the interim financial statements for the nine-month period ending September 30, 2017 (see Note 2 "Basis of presentation") as a result of the sale of the stake in Naturgy (see Note 1.3).



The movement in this heading during the period has been as follows:

	€ Million	
	2018	2017
<b>Balance at January 1</b>	<b>9,268</b>	<b>10,176</b>
Net investments	2	140
Changes in scope of consolidation <sup>(1)</sup>	(3,292)	72
Share of results of companies accounted for using the equity method	394	242
Net income from discontinued operations <sup>(2)</sup>	68	159
Dividends paid out	(460)	(474)
Translation differences	146	(842)
Reclassifications and other movements	294	(85)
<b>Balance at September 30</b>	<b>6,420</b>	<b>9,388</b>

<sup>(1)</sup> Mainly includes the write down of the investment in Naturgy (see Note 1.3).

#### 4.1.3 Financial assets

	€ Million	
	9/30/2018	12/31/2017
Non-current financial assets	1,630	2,038
Non-current trade operation derivatives <sup>(1)</sup>	18	2
Other current financial assets	1,662	257
Term deposits	1,501	231
Other	161	26
Current trade operation derivatives <sup>(2)</sup>	66	60
Cash and cash equivalents	5,301	4,601
<b>Total financial assets</b>	<b>8,677</b>	<b>6,958</b>

<sup>(1)</sup> This variation can mainly be attributed to the impact of applying the model of expected loss caused by credit risk set out under IFRS 9 (Note 2.2.2 and 5.3).

<sup>(2)</sup> Recognized in "Other non-current liabilities" on the balance sheet.

<sup>(3)</sup> This variation can mainly be attributed to the cash generated by the stake in Naturgy (see Note 1.3).

<sup>(4)</sup> Recognized in "Other receivables" of the balance sheet.

For more detailed information on financial liabilities, see Appendix III.

#### 4.1.4 Inventories

The increase of €1,044 million in inventories (+27%) can be attributed to the rise in crude oil prices and larger volumes of both crude oil and products and CO<sub>2</sub> emission rights in the *Downstream* segment.

#### 4.1.5 Equity

	€ Million	
	9/30/2018	12/31/2017
<b>Shareholders' equity:</b>	<b>31,310</b>	<b>30,197</b>
Share capital	1,596	1,556
Share premium and reserves:	27,161	25,694
Share Premium	6,428	6,428
Legal reserve	299	299
Retained earnings and other reserves <sup>(1)</sup>	20,434	18,967
Treasury shares and own equity investments	(632)	(45)
Income for the period attributable to the parent	2,171	2,121
Dividends and other remuneration	-	(153)
Other equity instruments	1,014	1,024
<b>Other accumulated comprehensive income</b>	<b>(87)</b>	<b>(404)</b>
<b>Non-controlling interests</b>	<b>300</b>	<b>270</b>
<b>TOTAL EQUITY</b>	<b>31,523</b>	<b>30,063</b>

<sup>(1)</sup> In 2018, "Other reserves" includes the impact of standards applicable for the first time (see Note 2.2.2).

### Share capital

At the Annual General Meeting held on May 11, 2018, the Company's shareholders approved two bonus share issues to execute the shareholder remuneration scheme known as “*Repsol Flexible Dividend*”, in substitution of what would have been the traditional final dividend from 2017 profits and the interim dividend from 2018 earnings, under which stockholders can choose whether to receive their remuneration in cash (by selling their bonus share rights in the market or back to the Company) or in shares. The first of these two bonus share issues took place between June and July. The main characteristics of these issues are detailed below:

		June / July 2018
<b>REMUNERATION IN CASH</b>	Owners who accepted the irrevocable purchase commitment <sup>(1)</sup>	13.26% rights
	Deadline for requesting sale of rights to Repsol at a guaranteed price	29 June
	Fixed price guaranteed by right	€0.485 gross / right
	Gross amount of the acquisition of rights by Repsol	€100 million
<b>REMUNERATION IN SHARES</b>	Owners who opted to receive new Repsol shares	86.74% rights
	Number of rights required for the allocation of a new share	34
	New shares issued	39,708,771
	Approximate share capital increase	2.55%
	Closing of capital increase	10 July

<sup>(1)</sup> Repsol has renounced the bonus share rights acquired by virtue of the purchase commitment and, by extension, the shares corresponding to those rights.

Following these issues, the share capital of Repsol, S.A. at September 30 stood at €1,596,173,736 fully subscribed and paid in, represented by 1,596,173,736 shares with a par value of 1 euro each.

According to the latest information available the significant stockholders of Repsol, S.A. are:

Significant shareholders	% of share capital
Sacyr, S.A. <sup>(1)</sup>	7.69
CaixaBank, S.A. <sup>(2)</sup>	4.66
Blackrock, Inc. <sup>(3)</sup>	4.63

<sup>(1)</sup> Sacyr, S.A. holds its stake through Sacyr Investments II, S.A., Sacyr Investments S.A. and Sacyr Securities, S.A.

<sup>(2)</sup> On September 20, 2018, CaixaBank S.A. announced the agreement adopted by its Board of Directors to sell its shareholding in Repsol, S.A.

<sup>(3)</sup> Blackrock Inc. holds its stake through various controlled entities.

### Shareholder remuneration

The following table breaks down the dividend payments received by Repsol's shareholders during the nine-month period ending in September 30, 2018, carried out under the “*Repsol Flexible Dividend*” program:

	No. of free-of-charge allocation rights sold to Repsol	Purchase commitment price (€/right)	Remuneration in cash (€ Million)	New shares issued	Remuneration in shares (€ Million)
December 2017/January 2018	393,708,447	0.388	153	29,068,912	440
June / July 2018	206,366,731	0.485	100	39,708,771	655

The Ordinary Annual General Meeting of Repsol, S.A., held on May 11, 2018, agreed on the reduction of capital by means of the redemption of own shares in order to offset the dilutive effect of capital increases concluded in 2018, described in the table above.

This reduction of capital will be carried out through the amortization of treasury stock held at April 4, 2018 and the shares acquired as part of the share repurchase scheme and, as applicable, the settlement of derivatives taken out prior to April 4, 2018

#### **Treasury shares and own equity investments**

The main transactions undertaken by the Repsol Group involving treasury shares were as follows:

	No. of Shares	Amount (€ Million)	% capital
<b>Balance at 12/31/2017</b>	<b>3,028,924</b>	<b>45</b>	<b>0.19%</b>
Market purchases <sup>(1)</sup>	81,005,471	1,279	5.07%
Market sales <sup>(1)</sup>	(45,706,369)	(692)	2.86%
<b>Balance at 9/30/2018 <sup>(3)</sup></b>	<b>38,328,026</b>	<b>632</b>	<b>2.40%</b>

<sup>(1)</sup> Includes the share acquisitions made under the Treasury Share Repurchase Scheme which began on September 4 and forecasts that a maximum of 62,705,079 shares equivalent to approximately 3.93% of Repsol's share capital on that date will be repurchased. As at September 30, a total of 26,189,800 shares had been acquired under the program.

<sup>(2)</sup> Includes the shares acquired and delivered (as applicable) under the scope of the Share Acquisition Plan and the share purchase programs aimed at beneficiaries of the pluri-annual performance-based remuneration plans (see Note 28 of the Consolidated Financial Statements for 2017). In 2018, 438,497 shares have been delivered as per the provisions of each of the plans (see Note 28.4 of the 2017 Consolidated Financial Statements).

<sup>(3)</sup> The balance at September 30, 2018, includes derivatives contracted by Repsol, S.A. from financial institutions for a notional total of 6 million shares in Repsol, S.A. under which voting rights and economic risk intrinsic to the shares were transferred to the Group.

#### **4.1.6 Financial liabilities**

	€ Million	
	9/30/2018	12/31/2017
Non-current financial debt	9,261	10,080
Non-current trade operation derivatives <sup>(1)</sup>	13	-
Current financial liabilities	3,598	4,206
Current trade operation derivatives <sup>(2)</sup>	299	215
<b>Total financial liabilities</b>	<b>13,171</b>	<b>14,501</b>

<sup>(1)</sup> This change reflects the cancelation of the bonds upon their maturity and the reclassification of bonds maturing in no more than 12 months between both headings.

<sup>(2)</sup> Recognized in "Other non-current liabilities" on the balance sheet.

<sup>(3)</sup> Recognized in "Other receivables" of the balance sheet.

For further details on financial liabilities, consult Appendix III.

During the first nine months of 2018, there were no new of obligations and other marketable securities. The following cancelations or repurchases have taken place:

- In January 2018, ROGCI repurchased a fixed-annual 3.75% bond maturing in February 2021 for a total of US\$251 million;
- In February 2018, a bond issued by Repsol International Finance, B.V. (RIF) in September 2012 as part of the EMTN Program was repaid at maturity for the nominal amount of €750 million, with a fixed annual coupon of 4.375%.
- On July 6, 2018, a bond issued by RIF in July 2016 as part of the EMTN program was repaid at maturity for a nominal amount of €600 million, with an annual coupon linked to the 3-month Euribor plus a spread of 70 basis points.

The outstanding balance of the obligations and marketable securities at September 30 is as follows:

ISIN	Issuing entity	Date of Issue	Currency	Nominal (millions)	Average rate %	Maturity	Listed <sup>(5)</sup>
US87425EAE32 <sup>(3)</sup>	Repsol Oil & Gas Canadá Inc.	Oct-97	Dollar	50	7.250%	Oct-27	-
US87425EAH62 <sup>(3)</sup>	Repsol Oil & Gas Canadá Inc.	May-05	Dollar	88	5.750%	May-35	-
US87425EAI29 <sup>(3)</sup>	Repsol Oil & Gas Canadá Inc.	Jan-06	Dollar	102	5.850%	Feb-37	-
US87425EAK91 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	Nov-06	Dollar	115	6.250%	Feb-38	-
XS0733696495 <sup>(1)</sup>	Repsol International Finance, B.V.	Jan-12	Euro	1,000	4.875%	Feb-19	LuxSE
US87425EAN31 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	May-12	Dollar	57	5.500%	May-42	-
XS0933604943 <sup>(1)</sup>	Repsol International Finance, B.V.	May-13	Euro	1,200	2.625%	May-20	LuxSE
XS0975256685 <sup>(1)</sup>	Repsol International Finance, B.V.	Oct-13	Euro	1,000	3.625%	Oct-21	LuxSE
XS1148073205 <sup>(1)</sup>	Repsol International Finance, B.V.	Dec-14	Euro	500	2.250%	Dec-26	LuxSE
XS1207058733 <sup>(2)</sup>	Repsol International Finance, B.V.	Mar-15	Euro	1,000	4,500% <sup>(4)</sup>	Mar-75	LuxSE
XS1334225361 <sup>(1)</sup>	Repsol International Finance, B.V.	Dec-15	Euro	600	2.125%	Dec-20	LuxSE
XS1352121724 <sup>(1)</sup>	Repsol International Finance, B.V.	Jan-16	Euro	100	5.375%	Jan-31	LuxSE
XS1442286008 <sup>(1)(6)</sup>	Repsol International Finance, B.V.	Jul-16	Euro	600	Eur. 3M +70 p.b.	Jul-18	LuxSE
XS1451452954 <sup>(1)</sup>	Repsol International Finance, B.V.	Jul-16	Euro	100	0.125%	Jul-19	LuxSE
XS1613140489 <sup>(1)</sup>	Repsol International Finance, B.V.	May-17	Euro	500	0.500%	May-22	LuxSE

Note: Does not include the perpetual subordinated bond issued by RIF on March 25, 2015 in the amount of €1,000 million, which qualifies as an equity instrument.

<sup>(1)</sup> Issues made under the EMTN Program, which is guaranteed by Repsol, S.A.

<sup>(2)</sup> Subordinated bond issued by RIF and guaranteed by Repsol, S.A. This issue does not correspond to any open-ended or shelf program.

<sup>(3)</sup> Repsol Oil & Gas Canada, Inc. issues guaranteed by Repsol, S.A.

<sup>(4)</sup> Coupon scheduled for March 25, 2025 and March 25, 2045.

<sup>(5)</sup> LuxSE (Luxembourg Stock Exchange). Excludes unofficial trading platforms, other trading venues and OTC markets.

Furthermore, RIF runs a Euro Commercial Paper (ECP) Program, guaranteed by Repsol, S.A., with a limit up to €2,000 million. Under this program, issues and liquidations were carried out over the course of the period, with an outstanding balance at September 30, 2018 standing at €1,249 million.

## 4.2 Income statement

### 4.2.1 Revenue from ordinary activities

The distribution of revenue from ordinary activities ("Sales" and "Services rendered and other income" items) in the first nine months of 2018 is as follows:

€ Million	9/30/2018
Spain	18,429
United States	2,436
Peru	2,148
Portugal	2,006
Others	11,753
<b>Total<sup>(1)</sup></b>	<b>36,772</b>

<sup>(1)</sup> The distribution by geography has been drawn up depending on the markets to which the sales or services rendered are destined.

### 4.2.2 Operating income

The improved operating income (+43%) can be attributed to the increase in sales margins in the *Upstream* business, driven by an increase in crude oil prices, and in the Refining business, resulting from the improvement in production margins. The increase in operating income and costs reflects, fundamentally, the increase in crude oil prices and hydrocarbon products.

### 4.2.3 Financial results

Financial results have improved mainly on account of the exchange difference income resulting from the impact of the performance of the dollar on financial instruments during the period and the favorable trends in the market value of derivatives. These were partially offset by the creation of provisions for credit risk,

mainly as a result of the situation in the oil industry in Venezuela and changes to the plans to operate the Group's assets in this country (see Note 5.2).

#### 4.2.4 Income tax

The effective tax rate<sup>1</sup> applicable to income from continuing operations (before tax and before considering the profit/(loss) of entities accounted for using the equity method) was 48%. This rate is higher than the rate applied in the same period in 2017 (26%), mainly due to the increase in *Upstream* revenue to which high rates of tax apply.

#### 4.2.5 Income from discontinued operations

"Income from discontinued operations", net of taxes, includes the income from the transfer of the stake in Naturgy for (€344 million), as well as the income generated for this stake up to February 22, 2018, the date it was reclassified as held for sale, for an amount of €68 million (€159 million in the first nine months of 2017).

#### 4.2.6 Earnings per share

Earnings per share in the first nine months of 2018 and 2017 are detailed below:

<b>EARNINGS PER SHARE (EPS)</b>	<b>9/30/2018</b>	<b>9/30/2017</b>
Net income for the period attributed to the parent (€ million)	2,171	1,583
Adjustment to interest expense corresponding to subordinated perpetual bonds (€ million)	(22)	(22)
Weighted average number of shares outstanding at September 30 (millions of shares) <sup>(1)</sup>	1,575	1,590
<b>Basic and diluted earnings per share (€/share)</b>	<b>1.36</b>	<b>0.98</b>

<sup>(1)</sup> The share capital recognized at September 30, 2017 came to 1,527,396,053 shares, although the average weighted number of outstanding shares for the purposes of calculating earnings per share includes the effect of capital increases undertaken as part of the "Repsol Flexible Dividend" shareholder payment system, as per the applicable accounting regulations (see note 2.2 Comparative information").

## (5) RISKS

### 5.1 Litigation risks

#### 5.1.1 Litigation

The information provided in this section updates the litigation cases reported in Note 16 of the 2017 consolidated financial statements:

##### *United Kingdom*

##### *"Galley" pipeline lawsuit*

In August 2012, there was damage and a leak in the Galley oil pipeline, in which Repsol Sinopec Resources UK Limited ("RSRUK", formerly known as Talisman Sinopec Energy UK Limited, "TSEUK"), at that time had a 67.41% stake. In September 2012, RSRUK filed a claim seeking coverage of the damages and losses sustained as a result of the incident from the insurance company Oleum Insurance Company ("Oleum"), a wholly-owned subsidiary of ROGCI, which in turn has a stake of 51% in RSRUK. In July 2014, RSRUK filed a claim against Oleum seeking \$351 million for damages and business disruption.

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<sup>1</sup> To estimate income tax accrued on interim periods, the estimated effective annual tax rate is applied. However, the tax effects resulting from one-off events or transactions in the period are considered as an integral part thereof.

RSRUK filed a request for arbitration on August 8, 2016 in London, and in June 2017, the Tribunal split the proceeding into two phases: liability, and, as applicable, quantum. In an interim award dated May 10, 2018, the Tribunal concluded that the policy does not exclude coverage for material damage arising from the incident. In September 2018, the claimant revised the amount claimed to US\$311.3 million. The Company believes that the final outcome of this litigation will not have a significant impact on its financial statements.

*Addax arbitration in relation to the purchase of Talisman Energy (UK) Limited (TSEUK)*

The oral hearing on liability issues took place between January 29 and February 22, 2018 and between June 18 and 29, 2018, the latter being limited to the questioning of the experts of each party. The hearing for oral conclusions was held from July 9 to 11, and the written conclusions were submitted on September 29. The proceeding is now pending a decision by the Court. Repsol holds the view that the claims made in the arbitration claim are unfounded.

**United States of America**

*Passaic River / Newark Bay Litigation*

On June 14, 2018, the Maxus Bankruptcy Administration filed a lawsuit ("New Claim") in the Federal Bankruptcy Court of the State of Delaware against YPF, Repsol and certain subsidiaries of both companies for the same claims as those contained in the Cross Claim. On October 19, 2018, Repsol filed a motion to dismiss. Repsol holds the view that the claims made in the New Claim are unfounded, as they were in the Cross Claim.

**5.1.2 Tax matters**

The information provided in this section updates the government and legal proceedings with tax implications set out in Note 23 of the 2017 consolidated financial statements in the following countries:

**Brazil**

The courts have ruled in the Group's favor in the lawsuit that Petrobras, as operator of block BM-S-9 (where in which Repsol holds a 25% stake) filed against the State of Sao Paulo (Brazil) for the purported breaches of formal requirements in 2009 (issuance of invoices related to the movement of materials and equipment to the Stena drilling platform). The ruling is final and cannot be appealed; therefore, the provisions set aside for this case are no longer required.

**Ecuador**

A request for international arbitration was filed in March 2018 by Oleoducto de Crudos Pesados, S.A. (OCP), a 29.66% investee of Repsol Ecuador, S.A. to settle a dispute with the Government of Ecuador relating to the tax treatment of subordinated debt issued to finance its operations.

**5.2 Geopolitical risks**

The information concerning this section updates contents of Note 21.3 of the 2017 consolidated financial statements.

**Venezuela**

In a context of economic and social crisis, with a significant fall in oil production, presidential elections were held on May 20, 2018, in which Nicolás Maduro was re-elected.

Over the course of 2018, new economic measures were adopted, changing the exchange rate system (see Appendix II), including: (a) the monetary reconversion (the new currency, called "bolívars soberanos" – BsS is equivalent to 100,000 "bolívars Fuertes" - Bs), (b) partial liberalization of the exchange rate system to enhance the flexibility of currency purchases and sales, and (c) launch of the cryptocurrency (Petro), which is intended to work as an exchange currency and convertible currency<sup>1</sup>, although its functionality and implementation process were unknown at the time of writing; and (d) a devaluation of 3,100%<sup>2</sup> the Venezuelan currency against the US dollar. None of these changes have had a material impact on the Group's financial statements.

At the end of the period, Repsol's equity exposure in Venezuela amounts to €796 million<sup>3</sup>. Exposure is lower compared to December 31, 2017 due to credit risk provisions resulting from the first application of IFRS 9 (see Note 2.2.2) and the impairment losses recorded in the Venezuelan investees and accounted for using the equity method (-€80 million, after tax) and in financial instruments and accounts receivable (-€417 million), all this as a result of the evolution of the situation of the oil industry in Venezuela and the amendments in the operating plans of the assets.

### **Vietnam**

Repsol owns mining rights on three blocks, distributed across six production-sharing contracts (PSC) in Vietnam: one in production over a net area of 152 km<sup>2</sup> (*Thang Long JOC*), one under development over 1,236 km<sup>2</sup> (*Ca Rong Do*) and four in exploration, over a net surface area of 72,248 km<sup>2</sup> (among them Block 135-136/03). Net average production in 2017 came to 5,200 barrels of oil equivalent/day (6,800 barrels of oil equivalent/day in the first nine months of 2018). As of December 31, 2017, estimated net proven reserves amounted to 27 million barrels of oil equivalent. The carrying amount of assets at September 30, 2018 came to €1,074 million and there are additional commitments relating to the investment in these areas.

Over this period, Repsol has received instructions from PetroVietnam to refrain from performing the programmed activities as part of the *Ca Rong Do* development project in Block 07/03, located in the South China Sea. On the other hand, in July 2017, the Government of Vietnam instructed Repsol to stop CKN-1X drilling activities in exploratory blocks 135-136/03, also located in the South China Sea. The scope of the suspension of activities has yet to be determined and the Group is working with PetroVietnam to find frameworks for action that satisfy the interests of both parties and that allow for achieving an amicable solution to this conflict. In any case, Repsol believes that it has a solid legal basis for claiming compensation for the damages that may arise from these circumstances, in addition to strong perspectives of success, both in the claim and the recovery of damages.

### **Libya**

Owing to worsening security conditions, our production has seen intermittent stoppages in 2018, but these have been minor in nature. Repsol's net production amounted to 37.2 thousand barrels of oil a day (compared to 22.8 thousand barrels of oil a day in the same period of 2017).

Uncertainty about the political future of Libya and the deteriorating security situation continue to affect the outlook of the oil industry. The country has now resumed oil production and export, but the proliferation of armed militias could lead to further clashes between them (in August, these clashes were particularly violent) and blockades of oil fields and export terminals.

Repsol's exposure to Libya at the end of the period amounted to €386 million.

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<sup>1</sup> Petro = 3,600 BsS.

<sup>2</sup> SIMECA (previously DICOM) exchange rate at September 2018: €72/BsS

<sup>3</sup> Corresponds to net assets of businesses in Venezuela plus financing granted to Venezuelan subsidiaries.

## **(6) OTHER INFORMATION**

### ***New businesses associated with energy transition***

#### *Agreement to purchase Viesgo's non-regulated electricity generation business*

In the framework of Repsol's Strategic Plan, on June 27 the Board of Directors approved the purchase of Viesgo's non-regulated generation of low-emissions power business, as well as its gas and electricity commercialization business for the sum of €750 million.

As regards to the generation business, the purchase encompasses hydroelectric power stations in the north of Spain and two combined cycle gas power stations in Algeciras (Cádiz) and Escatrón (Zaragoza), with Viesgo's coal power plants being excluded from the transaction. In respect of the commercialization business, the operation involves the acquisition of nearly 750,000 customers that are distributed throughout the Spanish territory, mainly in Cantabria, Galicia, Andalucía, Asturias, Castilla y Leon and the Madrid Region.

The transaction was authorized by the Board of the National Markets and Competition Commission (CNMC) on September 27, 2018 and the Ministry of Ecological Transition on October 18, 2018; therefore, this transaction is expected to be completed at the beginning of November.

#### *Acquisition of Valdesolar Hive, S.L.*

Repsol has acquired Valdesolar Hive, S.L. This company runs a photovoltaic project that may entail investment in its development of around €200 million, subject to fulfilment of certain precedent conditions. The photovoltaic plant located in Valdecaballeros (Badajoz) would have an installed capacity of 264 megawatts (MW) and may be commissioned in either 2019 or 2020.

### ***Liquefied natural gas supply agreement***

Repsol has signed an agreement with the US firm Venture Global LNG to supply approximately one million tons per year of liquefied natural gas (LNG) for 20 years from the Calcasieu Pass export plant that Venture Global LNG is developing in Cameron Parish, Louisiana. Repsol will purchase LNG from the commissioning of the plant in 2022, which will be employed both to supply gas to industrial complexes in Spain and to be sold worldwide. This contract is dependent on the final investment decision of Venture Global LNG in this facility and the satisfaction of the different administrative milestones with the corresponding authorities (Department of Energy and Federal Energy Regulatory Commission).

The price of this supply contract is indexed to the Henry Hub price.

### ***Changes in the Board of Directors***

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

As a result of the announcement by CaixaBank, S.A. of the sale of its stake in Repsol, S.A., on September 20, 2018, Mr. Gonzalo Gortázar Rotaeché and Mr. Jordi Gual Solé have given notice of their resignation as members of the Repsol Board of Directors (see Note 4.1.5).

The Board of Directors of Repsol S.A. in its meeting held on October 30th 2018, has resolved, on the proposal of the Nomination Committee; i) to appoint, by cooptation, Mr. Henri Philippe Reichstul as



External Director of the Company and as member of its Delegate Committee; ii) to propose to the next Annual Shareholders' Meeting, the reelection of the Chairman of the Board of Directors, Mr. Antonio Brufau Niubó and of the Chief Executive Officer, Mr. Josu Jon Imaz San Miguel, both for the statutory term of four years; and iii) to propose to the next Annual Shareholders' Meeting reducing to 15 the number of members of the Board of Directors.

#### ***Changes in the management team***

On July 25, 2018, the Board of Directors approved the restructuring of its management team, with a view to adapting its organization to the updated Strategic Plan (see Note 1.3). Furthermore, another series of changes has taken place at the highest levels of the management team, meaning that the Corporate Executive Committee is now made up of: Mr. Josu Jon Imaz San Miguel (CEO), Mr. Luis Cabra Dueñas (Executive Managing Director of Technological Development, Resources and Sustainability), Ms. Begoña Elices García (Executive Managing Director of Communications and the Chairman's Office), Mr. Tomás García Blanco (Executive Managing Director of Exploration and Production), Mr. Arturo Gonzalo Aizpiri (Executive Managing Director of People and Organization), Mr. Miguel Klingenberg Calvo (Executive Managing Director of Legal Affairs), Mr. Antonio Lorenzo Sierra (CFO) and Ms. Maria Victoria Zingoni Domínguez (Executive Managing Director of the Downstream Business).

The General Secretary and Secretary to the Board of Directors will continue under Mr. Luis Suárez de Lezo y Mantilla's management.

#### ***Related party transactions***

Following the announcement of the agreement adopted by the Board of Directors at CaixaBank to sell its stake in Repsol and the resignation of its proprietary directors as members of Repsol's Board of Directors on September 20, CaixaBank is now no longer considered a related party.

In addition, as a result of the sale on May 18 of Repsol's stake in Naturgy (see Note 1.3), the latter is no longer considered a related party.

#### **(7) EXPLANATION ADDED FOR THE TRANSLATION INTO ENGLISH**

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

## APPENDIX I. COMPOSITION OF THE GROUP

The main companies that form part of the Repsol Group are contained in Appendix I of the 2017 consolidated financial statements. The main changes in the composition of the Group in the first nine months of 2018 are as follows:

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

Name	Country	Parent Company	Item	Date	Method of cons. <sup>(1)</sup>	9/30/2018	
						% voting rights acquired	% total voting rights following acquisition <sup>(2)</sup>
WIB Advance Mobility, S.L.	España	Repsol Comercial de Productos Petrolíferos, S.A.	Constitución	marzo-18	P.E.(N.C.)	50.00%	50.00%
Repsol Jambi Merang, S.L.	España	Repsol Exploración, S.A.	Constitución	abril-18	I.G.	100.00%	100.00%
Repsol Exploración Jamaica, S.A.	España	Repsol Exploración, S.A.	Constitución	julio-18	I.G.	100.00%	100.00%
Valdesolar Hive, S.L.	España	Repsol Nuevas Energías, S.A.	Adquisición	julio-18	I.G.	100.00%	100.00%
Repsol Bulgaria Khan Kubrat, S.A.	España	Repsol Exploración, S.A.	Constitución	septiembre-18	I.G.	100.00%	100.00%

- <sup>(1)</sup> Method of consolidation:  
FC: Full consolidation.  
EM: Equity method. Joint ventures are identified as "JV"  
<sup>(2)</sup> Corresponds to the percentage stake in the acquired company's equity.

b) *Reduction in interest in subsidiaries, joint ventures, and/or associates and other similar transactions:*

Name	Country	Parent Company	Item	Date	Method of cons. (1)	9/30/2018		
						% voting rights disposed or derecognized	% total voting rights following disposal	Profit / (Loss) generated (€ Million)
Repsol Oil & Gas Canada Inc.	Canada	Repsol Energy Resources Canada Inc.	Amalgamation <sup>(2)</sup>	jan-18	FC	100.00%	0.00%	-
Rocsole, Ltd.	Finland	Repsol Energy Ventures, S.A.	Liquidation	feb-18	EM	0.66%	12.50%	-
Asfalnor, S.A.	Spain	Petróleos del Norte, S.A.	Liquidation	mar-18	FC	100.00%	0.00%	-
OGCI Climate Investments, Llp.	United Kingdom	Repsol Energy Ventures S.A.	Decrease part	apr-18	EM	1.79%	12.50%	-
Repsol Venezuela Gas, S.A.	Venezuela	Repsol Venezuela, S.A.	Absortion	may-18	FC	100.00%	0.00%	-
Naturgy Energy Group, S.A.	Spain	Repsol, S.A.	Sale	may-18	EM	20.07%	0.00%	344
AESA - Construcciones y Servicios, S.A. - Bolivia	Bolivia	Repsol Bolivia, S.A.	Absortion	may-18	FC	100.00%	0.00%	-
Repsol GLP de Bolivia, S.A.	Bolivia	Repsol Bolivia, S.A.	Absortion	may-18	FC	100.00%	0.00%	-
Talisman Sierra Leone, B.V.	Netherlands	Talisman International Holdings, B.V.	Liquidation	may-18	FC	100.00%	0.00%	-
Talisman Vietnam 05-2/10, B.V.	Netherlands	TV 05-2/10 Holding, B.V.	Liquidation	may-18	FC	100.00%	0.00%	-
CSJC Eurotek - Yugra	Russia	Repsol Exploración Karabashsky, B.V.	Decrease part	jun-18	EM (JV)	1.28%	72.33%	3
Repsol Netherlands Finance, B.V.	Netherlands	Repsol International Finance, B.V.	Liquidation	jun-18	FC	100.00%	0.00%	-
Talisman Finance (UK) Limited	UK	TEGSI (UK) Ltd.	Liquidation	sep-18	I.G.	100.00%	0.00%	-

- <sup>(1)</sup> Method of consolidation:  
FC: Full consolidation.  
EM: Equity method. Joint ventures are identified as "JV".  
<sup>(2)</sup> With effect from January 1, 2018, Repsol Oil & Gas Canada Inc. (ROGCI) and Repsol Energy Resources Canada Inc. have been involved in a corporate reorganization process known under Canadian law as "vertical amalgamation"; as a result, these companies have been merged into a single company which have assumed the corporate name of ROGCI.

## **APPENDIX II. REGULATORY FRAMEWORK**

### **Bolivia**

#### *Services and Operating Contracts*

On November 14, 2017, an addendum to the Operating Contract was signed for Caipipendi Area, approved by Law No. 1013 of December 27, 2017 and coming into force on March 20, 2018. This addendum seeks to establish the continuation of Oil Operations in the Area from May 2, 2031 onwards, subject to compliance with a new investment plan to be executed by the title Holder.

Furthermore, on June 13, 2018 YPFB Andina S.A, YPFB Chaco S.A, Repsol E&P Bolivia S.A., Shell Bolivia Corporation Sucursal Bolivia and PAE E&P Bolivia Limited (Sucursal Bolivia) entered into an Services Contract for the Exploration and Operation of Reserved Areas in favor of Yacimientos Petrolíferos Fiscales Bolivianos – YPFB, corresponding to the Iñiguazu Area, approved by Law No. 1081 of August 10, 2018.

### **Indonesia**

On July 17, 2018, following the announcement that Repsol Exploración South East Jambi BV (formerly Talisman West Bengara BV) had been successful in the 2018 tender process for South East Jambi, the company signed the South East Jambi PSC, the first Repsol PSC under the Gross Split variant.

### **Venezuela**

Presidential Decree No. 2184, of January 14, 2016, by which a State of Economic Emergency was declared throughout the national territory for a period of sixty (60) days, which empowers it to issue exceptional and extraordinary measures of an economic, social, environmental, political, legal and other nature, has been extended consecutively on a total of 15 occasions, the most recent being Presidential Decree No. 3610, published on September 19, 2018, in Official Gazette No. 41,485.

On January 5, 2018, the period established for the review and validation of all national and international contracts signed and those to be signed by Petróleos de Venezuela, S.A. PDVSA, its subsidiaries and the Mixed Companies in which PDVSA holds shares, established by Resolution No. 164 of the Ministry of People's Power of Petroleum, ended. To date, the review process continues in the Mixed Companies, with the results pending.

Official Gazette No. 41310, of December 29, 2017 contained the publication of the Constitutional Foreign Production Investment Law, establishing the principles, policies and procedures that regulate foreign production investments in goods and services. Special legislation regulating foreign investment in specific sectors of the economy shall apply in preference to such legislation, including those relating to hydrocarbons, mining and telecommunications. To date, the relevant sectoral regulation has not been published.

On August 6, 2018, the Ministry of the People's Power for Petroleum published Resolution 102 in Official Gazette No. 41454, providing for the creation of a Special Procurement Committee at PDVSA in order to establish centralized management of the purchase of goods, execution of works and provision of services for construction, maintenance plans and implementation of crude oil flow improvers required in the Hugo Chávez Frías Orinoco Belt, in a centralized manner.

On September 4, 2018, the Ministry of the People's Power for Petroleum, published Resolution 115 in Official Gazette No. 41474, creating a Technical Committee for the Reorganization of PDVSA and its subsidiaries. Once constituted, and in a period of no more than 30 days following publication of the Resolution, the Technical Committee must submit to the Chairman of PDVSA a work plan with an activity time line that reflects the company's priorities.

### Exchange rate system

On February 20, 2018, the launch of the "Petro" cryptocurrency was announced, backed by reserves from field 1 of the Ayacucho Block in the Hugo Chávez Frías Orinoco Oil Belt, in order to create an alternative currency to the dollar and a digital and transparent economy for the benefit of emerging countries. It was intended that legal and natural persons could effectively start to purchase the Petro as of March 23, 2018, but it hasn't become operational to date. This purchase can be made in convertible currencies: Yuan, Turkish Lira, Euros and Rubles. On March 19, the President of the United States of America signed an executive order banning US citizens and residents in the United States from performing any transactions in any digital currency issued by the Venezuelan government from January 9, 2018 onward, increasing the list of the country's sanctions on Venezuelan natural and legal persons.

On July 25, 2018, Presidential Decree No. 3548 was published in Official Gazette No. 41,446, establishing that from August 20, 2018, onward, all monetary amounts expressed in national currency prior to that date, must be converted to the new monetary unit, dividing the current units by one hundred thousand (100,000).

On August 2, 2018, the Constituent Assembly, published a Decree revoking the Exchange Rate System Law in Official Gazette No. 41,452, with a view to granting both natural and legal persons, whether Venezuelan or foreign nationals, full guarantees in terms of their involvement in the country's socioeconomic development model.

On September 7, 2018, the Banco Central de Venezuela (BCV) published the so-called Exchange Agreement No. 1<sup>1</sup>("the Exchange Agreement"), the purpose of which is to establish the free convertibility of the currency nationwide. This Exchange Agreement revoked the Exchange Agreements that were in force at the time of its publication. The most relevant aspects are: i) development of the main principles of the new Exchange Market System; ii) reestablishment of the free convertibility of the currency and the lifting of restrictions on exchange transactions; iii) capacity of BCV to centralize, administer and regulate operations under the new Exchange Market System; iv) all foreign currency purchase and sale transactions will be carried out at the weighted average exchange rate that the BCV publishes on its website; v) recognition of the validity of contracts entered into in foreign currency, vi) guarantee of private company participation through: (a) purchase and sale of positions in foreign currency (auctions); (b) exchange transactions at the retail price and; (c) purchase and sale of securities in national currency; (vii) regulation of exchange system applicable to the public oil sector.

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<sup>1</sup> Pending regulation by BCV.

### APPENDIX III. OTHER DETAILED INFORMATION

#### Financial Instruments

##### Financial assets

The breakdown, by type, of the Group's financial assets, is as follows:

€ Million	September 30, 2018 and December 31, 2017							
	Financial assets at FV with changes through P&L <sup>(2)</sup>		Financial assets at FV with changes through other comprehensive income <sup>(2)</sup>		Financial assets at amortized cost		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Equity instruments	25	-	101	118	-	-	126	118
Derivatives	18	2	-	-	-	-	18	2
Other financial assets	52	52	-	-	1,452	1,868	1,504	1,920
<b>Long-term/Non-current</b>	<b>95</b>	<b>54</b>	<b>101</b>	<b>118</b>	<b>1,452</b>	<b>1,868</b>	<b>1,648</b>	<b>2,040</b>
Derivatives	187	77	-	-	-	-	187	77
Other financial assets	12	10	-	-	6,830	4,831	6,842	4,841
<b>Short-term/Current</b>	<b>199</b>	<b>87</b>	<b>-</b>	<b>-</b>	<b>6,830</b>	<b>4,831</b>	<b>7,029</b>	<b>4,918</b>
<b>TOTAL <sup>(1)</sup></b>	<b>294</b>	<b>141</b>	<b>101</b>	<b>118</b>	<b>8,282</b>	<b>6,699</b>	<b>8,677</b>	<b>6,958</b>

<sup>(1)</sup> Does not include "Other non-current assets" and "Trade receivables and other receivables" of the consolidated balance sheet, which, at September 30, 2018 and December 31, 2017, came to €411 and €470 million (non-current) and €5,638 and €5,161 million (current), of which €1,310 and €1,028 million correspond to current accounts receivable on commodities sale agreements, which are measured at fair value with changes through profit and loss; the remainder corresponds mainly to trade accounts receivable measured at amortized cost.

<sup>(2)</sup> Under "Fair value of financial instruments" in this appendix informs about the classification of the financial instruments by hierarchy levels of fair value.

##### Financial liabilities

The breakdown, by type, of the Group's financial liabilities, is as follows:

€ Million	September 30, 2018 and December 31, 2017									
	Financial liabilities held for trading <sup>(2)</sup>		Loans and payables		Hedging derivatives <sup>(2)</sup>		Total		Fair value	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Bank borrowings	-	-	1,202	1,064	-	-	1,202	1,064	1,151	1,043
Bonds and other securities	-	-	5,239	6,323	-	-	5,239	6,323	5,565	6,812
Derivatives	13	-	-	-	48	68	61	68	61	68
Other financial liabilities <sup>(3)</sup>	-	-	2,772	2,625	-	-	2,772	2,625	2,772	2,625
<b>Long-term/Non-current</b>	<b>13</b>	<b>-</b>	<b>9,213</b>	<b>10,012</b>	<b>48</b>	<b>68</b>	<b>9,274</b>	<b>10,080</b>	<b>9,549</b>	<b>10,548</b>
Bank borrowings	-	-	634	539	-	-	634	539	634	539
Bonds and other securities	-	-	2,478	3,406	-	-	2,478	3,406	2,498	3,419
Derivatives	344	241	-	-	1	2	345	243	345	243
Other financial liabilities	-	-	440	233	-	-	440	233	440	233
<b>Short-term/Current</b>	<b>344</b>	<b>241</b>	<b>3,552</b>	<b>4,178</b>	<b>1</b>	<b>2</b>	<b>3,897</b>	<b>4,421</b>	<b>3,917</b>	<b>4,434</b>
<b>TOTAL <sup>(1)</sup></b>	<b>357</b>	<b>241</b>	<b>12,765</b>	<b>14,190</b>	<b>49</b>	<b>70</b>	<b>13,171</b>	<b>14,501</b>	<b>13,466</b>	<b>14,982</b>

<sup>(1)</sup> At September 30, 2018 and December 31, 2017, this item includes €1,401 and €1,347 million corresponding to "Other non-current liabilities" and €200 and €195 million corresponding to "Other payables" related to finance leases carried at amortized cost that are not included in the table above.

<sup>(2)</sup> Under "Fair value of financial instruments" in this Appendix informs about the classification of the financial instruments by hierarchy levels of fair value.

<sup>(3)</sup> It mainly relates to the loan granted by Repsol Sinopec Brasil S.A. through its subsidiary Repsol Sinopec Brasil B.V.

### Fair value of financial instruments

The classification of the financial instruments recognized in the interim financial statements at their fair value, on September 30, 2018 and December 31, 2017, is as follows:

€ Million	September 30, 2018 and December 31, 2017							
	Level 1		Level 2		Level 3		Total	
	2018	2017	2018	2017	2018	2017 <sup>(1)</sup>	2018	2017
<b>Financial assets</b>								
Financial assets at fair value with changes through profit or loss	82	68	187	73	25	-	294	141
Financial assets at fair value with changes through other comprehensive income	-	1	-	-	101	-	101	1
<b>Total</b>	<b>82</b>	<b>69</b>	<b>187</b>	<b>73</b>	<b>126</b>	<b>-</b>	<b>395</b>	<b>142</b>
<b>Financial liabilities</b>								
Financial liabilities held for trading	238	139	119	102	-	-	357	241
Hedging derivatives	-	-	49	70	-	-	49	70
<b>Total</b>	<b>238</b>	<b>139</b>	<b>168</b>	<b>172</b>	<b>-</b>	<b>-</b>	<b>406</b>	<b>311</b>

The financial instruments recognized at fair value are classified under the different fair value hierarchies, as described below:

Level 1: Valuations based on a quoted price in an active market for an identical instrument.

Level 2: Valuations based on a quoted price in an active market for similar financial assets or based on other valuation techniques that rely on observable market inputs.

Level 3: Valuations based on variables that are not directly observable in the market.

<sup>(1)</sup> Does not include €117 million at December 31, 2017 related to investments in shares of companies that are recorded at acquisition cost in accordance with IAS 39.

The valuation techniques used for instruments classified under hierarchy level 2, in accordance with accounting regulations, are based on the income approach, which entail the discounting to present value of future cash flows, either known or estimated, using discount curves from the market reference interest rates (in the case of derivative instruments, estimated using implicit forward curves offered in the market), including adjustments for credit risk based on the life 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.

The fair value of Level 3 instruments, corresponding to investments in the equity of unlisted companies, has been established primarily by means of discounting cash flows, and, when this information is not available, the carrying value of equity. Cash flow projections, in addition to the measurement of equity, cannot be considered as measurement inputs that can be observed on the market.

However, none of the indicated inputs should result in a significant change in the fair value of the remaining financial instruments classed at this level.

## Segment reporting

Revenue from ordinary activities by segments between customer and inter-segment revenue is displayed below:

Segments	€ Million					
	Customers		Intersegment		Total	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Upstream	4,341	3,375	1,343	1,160	5,684	4,535
Downstream	34,323	28,603	102	62	34,425	28,665
Corporate	-	1	-	-	-	1
(-) Adjustments and eliminations of operating income between segments	(1)	-	(1,445)	(1,222)	(1,446)	(1,222)
<b>TOTAL</b>	<b>38,663</b>	<b>31,979</b>	<b>-</b>	<b>-</b>	<b>38,663</b>	<b>31,979</b>

The reconciliation of other figures shown in Note 3.2 with those in IFRS-EU during the first nine months of 2018 and 2017 is as follows:

	€ Million	
	9/30/2018	9/30/2017
<b>Revenue from ordinary activities<sup>(1)</sup></b>	<b>38,663</b>	<b>31,979</b>
<i>Adjustments</i>		
Upstream	(1,870)	(1,607)
Downstream	(21)	(24)
<b>Revenue from ordinary activities IFRS-EU<sup>(2)</sup></b>	<b>36,772</b>	<b>30,348</b>
<b>Operating income<sup>(1)</sup></b>	<b>3,096</b>	<b>2,407</b>
<i>Adjustments</i>		
Upstream	(619)	(409)
Downstream	350	(48)
Corporate and adjustments	(96)	(40)
<b>Operating income IFRS-EU</b>	<b>2,731</b>	<b>1,910</b>
<b>Capital employed from continuing operations<sup>(1)</sup></b>	<b>33,827</b>	<b>33,817</b>
<i>Adjustments</i>		
Upstream	2,034	921
Downstream	17	18
Capital employed from discontinued operations		3,211
<b>Capital employed</b>	<b>35,878</b>	<b>37,967</b>

<sup>(1)</sup> Figures compiled in keeping with the Group reporting model described in Note 2.3 "Segment reporting".

<sup>(2)</sup> Corresponds to the sum of the "Sales" and "Services rendered and other income" on the income statement (IFRS-EU).

## APPENDIX IV. ALTERNATIVE PERFORMANCE MEASURES

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

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

For further information, see [www.repsol.com](http://www.repsol.com).

### 1. Financial performance measures

#### *Adjusted net income*

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

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

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

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

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1 See Note 2.3.

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

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



### **Inventory effect**

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

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

### **Special items**

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

The way in which the results of exchange rate fluctuations on tax positions in currencies other than the functional currency are presented has changed during the period, and these changes are reflected in the Special Items to facilitate the monitoring of business results and align us with best practices in the industry. The comparative figures for the first half of 2017 have not been restated, given their immateriality.

Section 3.3 "*Results, cash flows and financial position*" of this document includes the *Special Items* accumulated in the first nine months of 2018 and 2017. Below are the Special Items for the third quarter of 2018 and 2017:

<i>€ Million</i>	3Q	
	2018	2017
Divestments	52	(2)
Workforce restructuring charges	(25)	(13)
Impairment	(2)	1
Provisions and other <sup>(1)</sup>	(55)	(45)
Interrupted operations (see Note 2.2)	-	48
<b>TOTAL</b>	<b>(30)</b>	<b>(11)</b>

<sup>(1)</sup> Includes the effect of the exchange rate on tax positions in currencies other than the functional currency.

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

€ Million	Nine months accumulated <sup>(3)</sup>													
	Adjusted Result		ADJUSTMENTS										EU-IFRS profit/loss	
			Joint venture reclassification		Special items		Inventory effect <sup>(2)</sup>		Total Adjustments					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017		
Operating income	3,096 <sup>(1)</sup>	2,407 <sup>(1)</sup>	(593)	(353)	(146)	(78)	374	(66)	(365)	(497)	2,731	1,910		
Financial result	(290)	(339)	91	50	135	21	-	-	226	71	(64)	(268)		
Share of results of companies accounted for using the equity method	39	36	355	204	-	2	-	-	355	206	394	242		
<b>Net income before tax</b>	<b>2,845</b>	<b>2,104</b>	<b>(147)</b>	<b>(99)</b>	<b>(11)</b>	<b>(55)</b>	<b>374</b>	<b>(66)</b>	<b>216</b>	<b>(220)</b>	<b>3,061</b>	<b>1,884</b>		
Income tax	(1,105)	(530)	147	99	(220)	(14)	(96)	16	(169)	101	(1,274)	(429)		
<b>Profit from continuing operations</b>	<b>1,740</b>	<b>1,574</b>	<b>-</b>	<b>-</b>	<b>(231)</b>	<b>(69)</b>	<b>278</b>	<b>(50)</b>	<b>47</b>	<b>(119)</b>	<b>1,787</b>	<b>1,455</b>		
Income from continuing operations attributed to non-controlling interests	(20)	(31)	-	-	1	-	(9)	-	(8)	-	(28)	(31)		
<b>Income from continuing operations attributed to the Parent</b>	<b>1,720</b>	<b>1,543</b>	<b>-</b>	<b>-</b>	<b>(230)</b>	<b>(69)</b>	<b>269</b>	<b>(50)</b>	<b>39</b>	<b>(119)</b>	<b>1,759</b>	<b>1,424</b>		
Profit from discontinued operations	-	-	-	-	412	159	-	-	412	159	412	159		
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY</b>	<b>1,720</b>	<b>1,543</b>	<b>-</b>	<b>-</b>	<b>182</b>	<b>90</b>	<b>269</b>	<b>(50)</b>	<b>451</b>	<b>40</b>	<b>2,171</b>	<b>1,583</b>		

€ Million	Third quarter <sup>(3)</sup>													
	Adjusted Result		ADJUSTMENTS										EU-IFRS profit/loss	
			Joint venture reclassification		Special items		Inventory effect <sup>(2)</sup>		Total Adjustments					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017		
Operating income	1,053 <sup>(1)</sup>	794 <sup>(1)</sup>	(307)	(132)	96	(29)	92	20	(119)	(141)	934	653		
Financial result	(115)	(110)	31	11	(11)	16	-	-	20	27	(95)	(83)		
Share of results of companies accounted for using the equity method	18	12	183	116	-	2	-	-	183	118	201	130		
<b>Net income before tax</b>	<b>956</b>	<b>696</b>	<b>(93)</b>	<b>(5)</b>	<b>85</b>	<b>(11)</b>	<b>92</b>	<b>20</b>	<b>84</b>	<b>4</b>	<b>1,040</b>	<b>700</b>		
Income tax	(359)	(154)	93	5	(116)	(48)	(24)	(6)	(47)	(49)	(406)	(203)		
<b>Profit from continuing operations</b>	<b>597</b>	<b>542</b>	<b>-</b>	<b>-</b>	<b>(31)</b>	<b>(59)</b>	<b>68</b>	<b>14</b>	<b>37</b>	<b>(45)</b>	<b>634</b>	<b>497</b>		
Income from continuing operations attributed to non-controlling interests	(9)	(14)	-	-	1	-	(1)	(4)	-	(4)	(9)	(18)		
<b>Income from continuing operations attributed to the Parent</b>	<b>588</b>	<b>528</b>	<b>-</b>	<b>-</b>	<b>(30)</b>	<b>(59)</b>	<b>67</b>	<b>10</b>	<b>37</b>	<b>(49)</b>	<b>625</b>	<b>479</b>		
Profit from discontinued operations	-	-	-	-	-	48	-	-	-	48	-	48		
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY</b>	<b>588</b>	<b>528</b>	<b>-</b>	<b>-</b>	<b>(30)</b>	<b>(11)</b>	<b>67</b>	<b>10</b>	<b>37</b>	<b>(1)</b>	<b>625</b>	<b>527</b>		

<sup>(1)</sup> Income from continuing operations at current cost of supply (CCS).

<sup>(2)</sup> The inventory effect represents an adjustment to "Supplies" and "Changes in inventory of finished goods and work in progress" on the income statement under IFRS-EU.

<sup>(3)</sup> The information for the third quarter of 2017 and the first nine months of 2018 has been restated following the sale of the shareholding in Naturgy Energy Group, S.A. (see Note 2).

#### EBITDA:

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

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

	Nine months accumulated							
	Group Reporting Model		Joint venture reclassification and other		Inventory effect		IFRS-EU <sup>(1)</sup>	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	3,577	2,421	(1,289)	(976)	-	-	2,288	1,445
Downstream	2,390	2,422	(8)	(9)	-	-	2,382	2,413
Corporate and other	(134)	(128)	16	12	-	-	(118)	(116)
<b>EBITDA</b>	<b>5,833</b>	<b>4,715</b>	<b>(1,281)</b>	<b>(973)</b>	<b>-</b>	<b>-</b>	<b>4,552</b>	<b>3,742</b>
<b>EBITDA CCS</b>	<b>5,459</b>	<b>4,781</b>	<b>(1,281)</b>	<b>(973)</b>	<b>374</b>	<b>(66)</b>	<b>4,552</b>	<b>3,742</b>

	Third quarter							
	Group Reporting Model		Joint venture reclassification and other		Inventory effect		IFRS-EU <sup>(1)</sup>	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	1,288	755	(431)	(334)	-	-	857	421
Downstream	741	904	(4)	(4)	-	-	737	900
Corporate and other	(7)	(52)	(38)	12	-	-	(45)	(40)
<b>EBITDA</b>	<b>2,022</b>	<b>1,607</b>	<b>(473)</b>	<b>(326)</b>	<b>-</b>	<b>-</b>	<b>1,549</b>	<b>1,281</b>
<b>EBITDA CCS</b>	<b>1,930</b>	<b>1,587</b>	<b>(473)</b>	<b>(326)</b>	<b>92</b>	<b>20</b>	<b>1,549</b>	<b>1,281</b>

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

#### ROACE:

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

The *ROACE* ("Return on average capital employed") is calculated as: (Adjusted Net Income, excluding Financial Result + Inventory Effect + Special Items)<sup>1</sup> / (Capital employed during the continuing operations period). **Capital employed** measures own and external capital invested in the company, and corresponds to Total Equity + **Net debt**. Includes that which corresponds to joint ventures or other companies whose operations are generated as such.

<sup>1</sup> In 2018, Repsol has changed the way in which it calculates ROACE to include "Special Items", thus improving its comparability with other companies in the sector. The corresponding information has been adapted for the period of comparison.

NUMERATOR	9M 2018	9M 2017		
<b>Operating income (EU-IFRS)</b>	<b>2,731</b>	<b>1,910</b>		
Reclassification of joint ventures	593	353		
Income tax <sup>(1)</sup>	(1,370)	(628)		
Share of profit (loss) of entities accounted for using the equity method - net of tax	39	38		
<b>I. ROACE result at average weighted cost</b>	<b>1,993</b>	<b>2,746 <sup>(2)</sup></b>	<b>1,673</b>	<b>2,261 <sup>(2)</sup></b>
<b>DENOMINATOR (€ Million)</b>				
Total equity		31,523	30,056	
Net financial debt		2,304	6,972	
<b>Capital employed at year end</b>		<b>33,827</b>	<b>37,028</b>	
<b>II. Average capital employed <sup>(3)</sup></b>		<b>33,467</b>	<b>34,907</b>	
<b>CCS ROACE (I/II)</b>		<b>8.2</b>	<b>6.5</b>	

<sup>(1)</sup> Does not include income tax corresponding to financial results.

<sup>(2)</sup> Figure annualized by extrapolating the data for the period (excluding Special Items).

<sup>(3)</sup> Corresponds to the average balance of capital employed at the beginning and end of the period of continuing operations.

## 2. Cash flow measures

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

The three main measures used by the Group's management to evaluate the generation of cash flow in the period are **Cash flow from operations (FCO)**, **Free cash flow** and **Cash flow generated**.

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

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

**Cash flow generated** corresponds to **free cash flow** after deducting all payments for dividends, remuneration of other equity instruments such as net interest and payments for leasing and treasury stock. This APM measures the funds generated by the Company before financial transactions (mainly from debt issuance and repayments).

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

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	Nine months accumulated					
	Adjusted cash flow		Joint venture reclassification and other		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities (cash flow from operations)	3,351	3,577	(532)	(309)	2,819	3,268
II. Cash flows from / (used in) investing activities	1,849	(1,901)	(1,140)	-	709	(1,901)
<b>Free cash flow (I+II)</b>	<b>5,200</b>	<b>1,676</b>	<b>(1,672)</b>	<b>(309)</b>	<b>3,528</b>	<b>1,367</b>
<b>Cash flow generated</b>	<b>3,723</b>	<b>708</b>	<b>(1,669)</b>	<b>(307)</b>	<b>2,054</b>	<b>401</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(4,523)	(1,764)	1,695	298	(2,828)	(1,466)
<b>Net increase / (decrease) in cash and cash equivalents (I+II+III)</b>	<b>677</b>	<b>(88)</b>	<b>23</b>	<b>(11)</b>	<b>700</b>	<b>(99)</b>
Cash and cash equivalents at the beginning of the period	4,820	4,918	(219)	(231)	4,601	4,687
Cash and cash equivalents at the end of the period	5,497	4,830	(196)	(242)	5,301	4,588

	Third quarter					
	Adjusted cash flow		Joint venture reclassification and other		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities (cash flow from operations)	1,625	1,402	(175)	(216)	1,450	1,186
II. Cash flows from / (used in) investing activities	(731)	(669)	45	(114)	(686)	(783)
<b>Free cash flow (I+II)</b>	<b>894</b>	<b>733</b>	<b>(130)</b>	<b>(330)</b>	<b>764</b>	<b>403</b>
<b>Cash flow generated</b>	<b>350</b>	<b>436</b>	<b>(131)</b>	<b>(332)</b>	<b>219</b>	<b>104</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(1,308)	(845)	123	313	(1,185)	(532)
<b>Net increase / (decrease) in cash and cash equivalents (I+II+III)</b>	<b>(414)</b>	<b>(112)</b>	<b>(7)</b>	<b>(17)</b>	<b>(421)</b>	<b>(129)</b>
Cash and cash equivalents at the beginning of the period	5,911	4,942	(189)	(225)	5,722	4,717
Cash and cash equivalents at the end of the period	5,497	4,830	(196)	(242)	5,301	4,588

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

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

	Nine months accumulated					
	Group Reporting Model		Joint arrangements reclassification and other		IFRS-EU	
	Sept - 2018	Dec - 2017	Sept - 2018	Dec - 2017	Sept - 2018	Dec - 2017
Cash and cash equivalents	5,497	4,820	(196)	(219)	5,301	4,601
Undrawn credit lines	2,346	2,503	-	-	2,346	2,503
Cash deposits of immediate availability <sup>(1)</sup>	1,501	231	-	-	1,501	231
<b>Liquidity</b>	<b>9,345</b>	<b>7,554</b>	<b>(196)</b>	<b>(219)</b>	<b>9,148</b>	<b>7,335</b>

<sup>(1)</sup> Repsol contracts time deposits but with immediate availability that are recognized under "Other current financial assets" (see Note 4.2) and that do not meet the criteria to be classified as cash and cash equivalents.

### Operating investments<sup>1</sup>:

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

	Nine months accumulated					
	Operating investments		Joint venture reclassification and other		IFRS-EU <sup>(1)</sup>	
	2018	2017	2018	2017	2018	2017
Upstream	1,423	1,373	(261)	(298)	1,162	1,075
Downstream	560	445	(2)	(1)	558	444
Corporate and other	36	25	-	(1)	36	24
<b>TOTAL</b>	<b>2,019</b>	<b>1,843</b>	<b>(263)</b>	<b>(300)</b>	<b>1,756</b>	<b>1,543</b>

	Third quarter					
	Operating investments		Joint venture reclassification and other		IFRS-EU <sup>(1)</sup>	
	2018	2017	2018	2017	2018	2017
Upstream	523	467	(131)	(109)	392	358
Downstream	235	166	(3)	(1)	232	165
Corporate and other	16	9	-	(7)	16	2
<b>TOTAL</b>	<b>774</b>	<b>642</b>	<b>(134)</b>	<b>(117)</b>	<b>640</b>	<b>525</b>

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

### 3. Financial position measures

#### Debt and financial position ratios

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

<sup>1</sup> Repsol has changes the way in which it measures investor effort, previously using Net investments (operating investments net of divestments) in line with best industry practice and to improve comparability with companies in the sector, adapting the corresponding information for the period of comparison.

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	Net Debt			Joint venture reclassification <sup>(1)</sup>			Figure according to IFRS - EU balance sheet Figure according to IFRS-EU balance sheet		
	Sept - 18	Dec-17	Sept - 17	Sept - 18	Dec-17	Sept - 17	Sept - 18	Dec-17	Sept - 17
<b>Non-current assets</b>									
Non-current financial instruments <sup>(2)</sup>	34	360	374	1,470	1,560	699	1,504	1,920	1,073
<b>Current assets</b>									
Other current financial assets	1,725	254	238	(63)	3	1,122	1,662	257	1,360
Cash and cash equivalents	5,497	4,820	4,830	(196)	(219)	(242)	5,301	4,601	4,588
<b>Non-current liabilities<sup>(3)</sup></b>									
Non-current financial liabilities	(6,511)	(7,611)	(8,155)	(2,750)	(2,469)	147	(9,261)	(10,080)	(8,008)
<b>Current liabilities<sup>(3)</sup></b>									
Current financial liabilities	(3,355)	(4,160)	(4,334)	(243)	(46)	(2,665)	(3,598)	(4,206)	(6,999)
<b>Items not included on the balance sheet</b>									
Net mark to market valuation of financial derivatives (ex: exchange rate) <sup>(4)</sup>	306	70	75	(269)	-	-	37	70	75
<b>NET DEBT</b>	<b>(2,304)</b>	<b>(6,267)</b>	<b>(6,972)</b>				<b>(4,355)</b>	<b>(7,438)</b>	<b>(7,911)</b>

- (1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:  
September 2018: (Cash and cash equivalents of €52 million and current financial liabilities as a result of an intra-group loan of €2,772 million, less €145 million in third-party loans)  
December 2017: (Cash and cash equivalents of €28 million and current financial liabilities as a result of an intra-group loan of €2,624 million, less €275 million in third-party loans)  
September 2017: (Cash and cash equivalents of €20 million and current financial liabilities as a result of an intra-group loan of €2,647 million, less €347 million in third-party loans)
- (2) Corresponds to the consolidated balance sheet heading, "Non-current financial assets" (but does not include equity instruments).
- (3) Does not include finance lease obligations.
- (4) The net mark to market value of financial derivatives different from exchange rate derivatives has been eliminated from this section.

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

	Gross Debt			Joint venture reclassification and other			Figure according to IFRS-EU balance sheet		
	Sept - 18	Dec-17	Sept - 17	Sept - 18	Dec-17	Sept - 17	Sept - 18	Dec-17	Sept - 17
Current financial liabilities	(3,309)	(4,133)	(4,311)	(242)	(45)	(2,664)	(3,551)	(4,178)	(6,975)
Net valuation at the market rates of financial derivative, such as current exchange rate	64	(9)	7	-	-	-	64	(9)	7
<b>Current gross debt</b>	<b>(3,245)</b>	<b>(4,142)</b>	<b>(4,304)</b>	<b>(242)</b>	<b>(45)</b>	<b>(2,664)</b>	<b>(3,487)</b>	<b>(4,187)</b>	<b>(6,968)</b>
Non-current financial liabilities	(6,463)	(7,542)	(8,080)	(2,750)	(2,470)	146	(9,213)	(10,012)	(7,934)
<b>Non-current gross debt</b>	<b>(6,463)</b>	<b>(7,542)</b>	<b>(8,080)</b>	<b>(2,750)</b>	<b>(2,470)</b>	<b>146</b>	<b>(9,213)</b>	<b>(10,012)</b>	<b>(7,934)</b>
<b>GROSS DEBT</b>	<b>(9,708)</b>	<b>(11,684)</b>	<b>(12,384)</b>	<b>(2,993)</b>	<b>(2,515)</b>	<b>(2,517)</b>	<b>(12,701)</b>	<b>(14,199)</b>	<b>(14,901)</b>

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

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

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

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

**Interest cover** is calculated in the same way as debt interest (which comprises finance income and expense, see Note 22 "Financial result" of the 2017 consolidated financial statements) divided by EBITDA. This ratio is a measurement that can determine the company's ability to cover interest payments with its EBITDA.

€ Million	Nine months accumulated					
	Group Reporting Model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2018	2017	2018	2017	2018	2017
Interest	215	268	(44)	(49)	171	219
EBITDA	5,833	4,715	(1.281)	(973)	4,552	3,742
<b>Interest cover</b>	<b>3.7%</b>	<b>5.7%</b>			<b>3.8%</b>	<b>5.9%</b>

€ Million	Third quarter					
	Group Reporting Model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2018	2017	2018	2017	2018	2017
Interest	71	85	(13)	(15)	57	70
EBITDA	2,022	1,607	(473)	(326)	1,549	1,281
<b>Interest cover</b>	<b>3.5%</b>	<b>5.3%</b>			<b>3.7%</b>	<b>5.5%</b>