

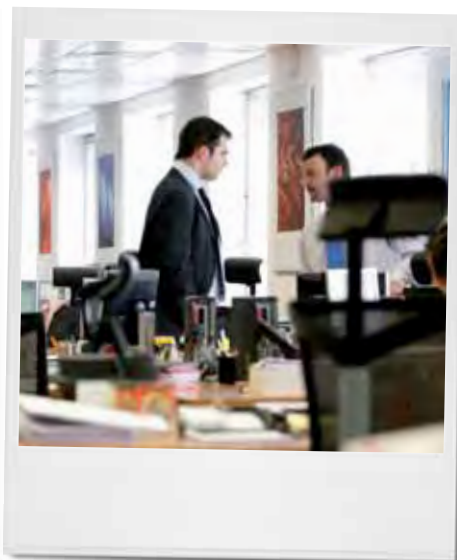


Consolidated Management Report

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Economic-financial information

During 2007, world economic growth remained strong, although, due to the turbulent financial system during the last trimester it slowed down



Macroeconomic environment

In 2007, global economic growth remained robust and continued the favourable trend of recent years. However, in the last quarter, growth slowed down, mainly due to turbulence in the financial system, which initially affected the structured credit markets and their financing requirements, even though they subsequently strengthened and generated tension in the credit market beyond the scope of high-risk mortgages.

In this context, the International Monetary Fund (IMF) estimates that in 2007 global growth will reach 4.9%, slightly less than the 5.0% in 2006. Advanced economies showed a 2.6% growth in 2007, compared to 3.0% in 2006, whilst emerging and developing economies grew 7.8%, slightly higher than the previous 7.7%. These figures reflect how the financial disruption initially affected mature markets more intensely than emerging markets.

Another significant characteristic within the macroeconomic context of 2007 was the turn of inflation in the second half of the year, caused by the prices of raw materials, mainly oil and cereals. In 2007, crude oil prices continued to follow the bullish trend started in 2002. The average price per barrel, both for WTI and Brent crude oil, was US\$72, which represents an increase of almost US\$6 with respect to the 2006 average.

2007 began with the downward inertia of prices that initiated towards the end of 2006 and ended with the greatest upturn in recent years. This significant price increase, of almost \$40 per barrel between January and December, was supported by several factors, including: greater control of supply by OPEC, given the disappointing evolution of non-OPEC production; sustained growth in demand from emerging countries, despite the increase in prices and a market characterised by high volatility and greater uncertainty.

The increase in inflation complicated central bank activity which is now centred on trying to normalise the financial markets, taking into account the risks of rising inflation and decreasing growth.

GDP growth in the United States was 2.2% in 2007, which implies a deceleration with respect to the 2.9% of 2006. The crisis, initially concentrated on the housing market, has now expanded to the manufacturing sector and has started to affect private consumption.

During 2007, growth reached 2.6% in the Euro zone, slightly less than the 2006 figure of 2.8%. Once again, the favourable evolution of investments and exports was the cause of this growth.

Growth in the euro area was favoured by the positive evolution of investments and exports

The positive performance of the European economy contributed to the Spanish economy's continued dynamism in 2007. Accordingly, GDP growth in 2007 was 3.8%, very similar to the 3.9% seen in 2006. Moreover, it continued to show a more balanced trend due to it being based on investment, not just in construction, but also in equipment and software, and on the favourable performance of the foreign sector.

Although Latin America suffered higher inflation, it benefited from the strong evolution of the foreign sector and the high prices of raw materials, showing an economic growth of around 4.4% in 2007.

Income statement

Repsol YPF's net income for 2007 was €3,188 million, 2% higher than in 2006, and once again a record figure. Income from operations was €5,808 million and EBITDA reached €8,573 million compared to the €9,053 million obtained in 2006. Earnings per share were €2,61, an increase of 2%.

2007 was influenced by the strong euro against the dollar and by high international oil prices. In this respect, it must be noted that throughout 2007 the price of crude oil maintained constant growth from \$60 per barrel at the start of the year, reaching an annual maximum of \$99 per barrel. Additionally, the dollar gradually depreciated throughout the financial year reaching an annual average of 8.4%.



Income statement

	2007	2006
		<i>Million euros</i>
Income from operations	5,808	5,911
Exploration & Production	2,968	3,286
Refining & Marketing	2,358	1,855
Chemicals	231	353
Gas & Power	516	469
Others	(265)	(52)
Results	(224)	(482)
Income before tax from discontinued operations	-	-
Income before tax and income from associates	5,584	5,429
Tax on profits	(2,338)	(2,220)
Share in income after tax	109	139
Income for the period	3,355	3,348
Income attributable to:		
External partners	167	224
Shareholders of the parent company	3,188	3,124

Income from the Exploration and Production area was marked by high crude oil prices and the improvement of natural gas realisation prices, although these were reduced by the weak dollar during that year, increased international refining margins reflected positively on the Refining and Marketing area, whose income from operations was €2,358 million, representing a 27% increase compared with the previous year.

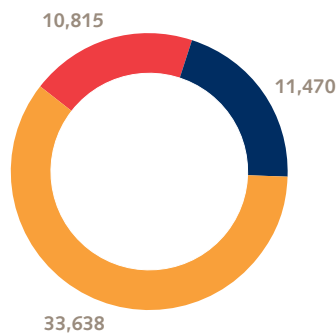
Income from the Chemicals area showed weak international margins in base chemicals. Income from operations in the Gas and Power area was 516 million, showing an increase of 10% with regard to 2006 and includes the income increase of Gas Natural SDG, notably the growth in distribution activity in Spain and Latin America and, in particular, an increase in the commercialisation of natural gas in Spain.

In 2007, Repsol YPF reached a record net income of 3,188 million euros

Financial expenses in 2007 reached €224 million, a decrease of 53% with respect to 2006. This decrease is mainly due to reduced financial net interest expenses, as a result of the 839 million reduction in the average net debt, the increase in profitability of financial investments and the positive impact of exchange rate differences resulting from the appreciation of the Brazilian real and the euro against the dollar. Accrued company taxes for 2007 reached €2,338 million, placing the taxable rate at 41.9% compared to 40.9% of the previous year.

Operating revenues by geographical areas 2007

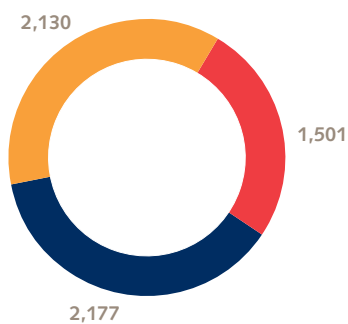
55,923 million euros



Spain
Argentina, Brazil, Bolivia (ABB)
Rest of the world

Income from operations by geographical areas 2007

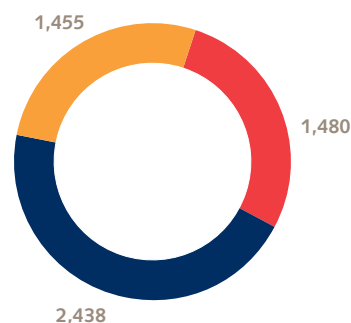
5,808 million euros



Spain
Argentina, Brazil, Bolivia (ABB)
Rest of the world

Investments by geographical areas 2007

5,373 million euros



Spain
Argentina, Brazil, Bolivia (ABB)
Rest of the world

Financial overview

At the close of the 2007 financial year, Repsol YPF's net financial debt was €3,493 million, reduced by €903 million compared to the close of 2006. The high EBITDA volume caused this reduction, which was much higher than net investments, dividends and tax payments. Moreover, the depreciation of the dollar against the euro nominally reduced debt, the majority of which is in this currency, by €464 million.

Investments in 2007 amounted to €5,079 million, mainly due to the purchase of 28% of the Genghis Khan field in the Gulf of Mexico (United States), the construction of the regasification plant in Canaport and the Peru LNG project. Other investments were centred on on-going refining projects, in addition to improvements in operations and installations, safety and environment, fuel quality and conversion.

Divestment throughout the year totalled €1,273 million, in accordance with the strategy of divesting non-strategic assets. Significant factors in this area were the sale of the Foster tower in Madrid, the sale of 10% of the capital holding in Compañía Logística de Hidrocarburos (CLH) and the sale of the liquid fuel commercialisation activities in Chile.

On 21 February 2008, Repsol YPF sold 14.9% of its YPF S.A. shares to the Petersen Group for \$2,235 million, providing the purchaser with a loan of \$1,015 million. Additionally, within a maximum period of four years, the Petersen Group may execute a call option on a further 10.1% of YPF's share capital.

Dividends paid in 2007 reached a total of €949 million, of which Repsol YPF paid €879 million to its shareholders from the income for the 2006 financial year, which has led to an increase of 20% with regard to the previous year. The remainder corresponded to dividends paid to minor shareholders of subsidiary companies.

Net debt evolution

	<i>Million euros</i>
	2007
Net debt at January 1st	4,396
EBITDA	8,573
Working capital variance	582
Investments ⁽¹⁾	5,079
Divestments ⁽²⁾	(1,273)
Dividends (including those of subsidiary companies)	949
Exchange rate effects	(464)
Taxes paid	2,157
Other movements	640
Net debt as at December 31st	3,493

⁽¹⁾ Additionally, there are other financial investments totalling 294 million euros, giving a total investment of 5,373 million euros.

⁽²⁾ Additionally, there are financial divestments to the value of 6 million euros, giving a divestment total of 1,279 million euros.

With regard to treasury share operations, the General Shareholders' Meeting, held on 9 May 2007, authorised the Board of Directors to acquire treasury shares, during an eighteen-month period, either directly or through controlled companies. The number of shares was limited to 5% of the share capital and at a price or compensation value of no less than the nominal value of the shares and no more than their stock market values. This agreement annulled the authorisation in the same terms and for the same period approved by the previous General Shareholders' Meeting, held on June 16 2006.

By virtue of this authorisation, in 2007 Repsol YPF acquired 4,462,665 treasury shares, which represents 0.366% of the capital, for a value of €110.69 million, with a nominal value of €4.46 million. The same number of shares (4,462,665) was transferred for a value of €114.30 million. The amount resulting from these operations is €3.61 million.

On 31 December 2007, neither the company nor any go-betweens held shares in the company.

As of 31 December 2007, Repsol YPF debt was situated at 3,493 million euros, the lowest ever registered

Financial prudence

Repsol YPF holds, in line with its financial prudence policy, a significant volume of financial investments, included under balance sheet items "temporary financial investments", "cash and short-term cash equivalents" and "long-term financial assets". For this reason, the net debt and the net debt to capital employed ratio, where capital employed corresponds to net debt plus net assets, reliably reflects both the volume of necessary external financial resources and its relative weight in the financing of the capital employed in operations.

Net debt at 31/12/2007

	<i>Million euros</i>
Loans and current and non-current financial debts (note 19)	8,148
Financial liabilities through interest rate hedge derivatives (note 38)	(182)
Current and non-current financial assets:	
- Valued at fair value with changes in income (except market value of derivatives) (note 13.1)	(138)
- Financial assets held to maturity (note 13.3)	(3,521)
Financial assets through interest rate hedge derivatives (note 38)	(814)
Net reported debt	3,493
Preferred shares (note 19)	3,418
Net financing	6,911

Notes from the 2007 consolidated annual accounts.

The ratio of net debt to capital employed at December 2007 was 13.4%, with a reduction of 3.6 percentage points compared with December 2006. Taking into account preferred shares, this ratio was 30.3% in December 2006 against 26.5% at the end of 2007.

In the chart on the previous page it is illustrated how the reported net debt calculation is based on the balance sheet information from the consolidated financial statements:

Financial risk management and definition of hedges

Group activities carry different types of financial risks:

- Market risk, as a consequence the price volatility of oil, natural gas and their derivative products, exchange rates and interest rates.
- Liquidity (or solvency) risk, to the extent that the Group may find it difficult to have the necessary financial resources available to meet its obligations.
- Credit risk, associated with financial contracts and trade activities.

Market risk

Market risk is the potential loss due to adverse movements in market variables. The Group is exposed to several types of market risk:

Exchange rate risk

Income from operations is exposed to variations in exchange rates, mainly the dollar against the euro, as a substantial part of the income and some expenses are denominated in or indexed to the dollar. Repsol YPF obtains financing predominantly in dollars, whether directly or by means of exchange rate derivatives.



Commodities price risk

As a consequence of the development of commercial operations and activities, the Group's income is exposed to the price volatility of oil, natural gas and their derived products. Repsol YPF occasionally contracts derivatives on these risks with the aim to reduce their exposure to price risks. These derivatives provide an economic hedge for income, although they are not always designated as hedges for accounting recognition.

Interest rate risk

The market value of Group net financing and net interest expenses may be affected as a result of variations in interest rates. Repsol YPF occasionally contracts interest rate derivatives in order to reduce the risk of variations on financial expenses or on the market value of its debt. These derivatives are generally entered in the accounts as hedged items.

The debt reduction was accompanied by a significant 53.5% drop in financial outlays

Liquidity risk

Liquidity risk is associated with the Group's capacity to finance commitments purchased at fair market values and to carry out its business plans with sources of stable financing.

Repsol YPF follows a prudence policy for protection against liquidity risk. For this reason, it keeps cash and other liquid financial instruments available in sufficient volume to cover the loans and debts that are forecast to mature in the next twelve months. Additionally, as of 31 December 2007 the Group has unused credit lines of €4,132 million.

Credit risk

Credit risk is defined as the possibility of a third party not fulfilling its contractual obligations and thereby causing losses for the Group.

The Group's exposure to credit risk is mainly attributable to commercial debts for commercial operations. According to group assessments, the majority of non-matured and non-provisioned receivables have a high level of credit quality, based on the analysis of the solvency and payment habits of each client. Similarly, the credit risk of liquid funds and derivative financial instruments is limited because the counterparties are banking entities to which the international rating agencies have assigned high ratings.

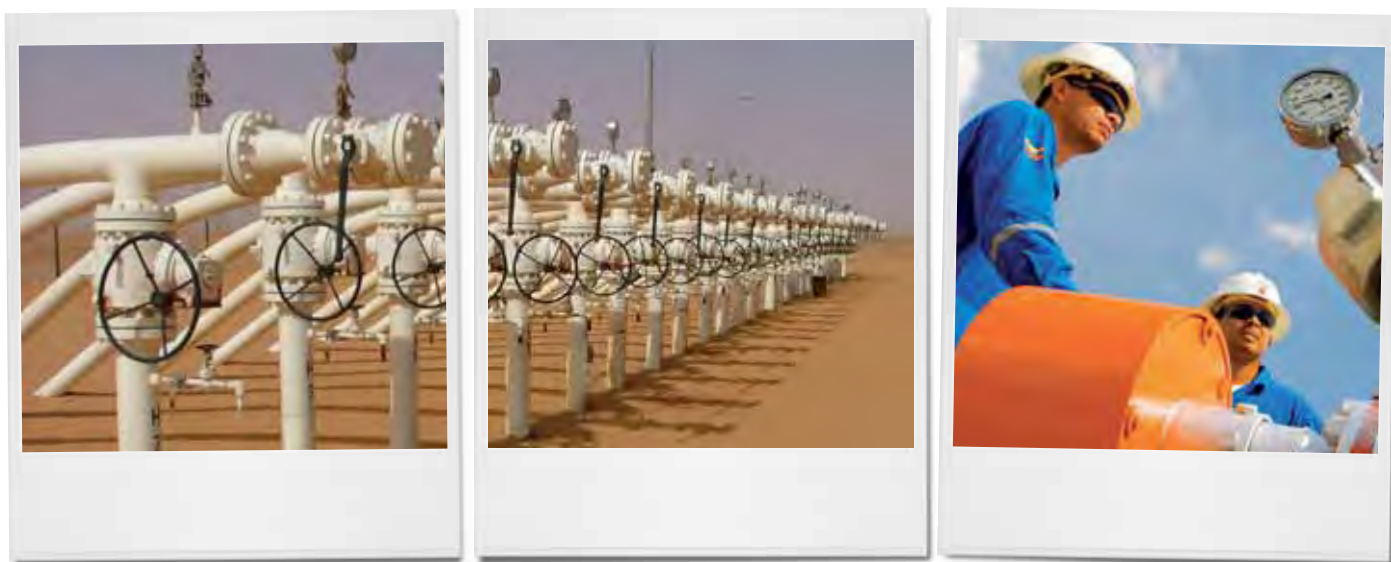
The Group has no significant concentration of credit risk, as it is distributed among a large number of customers and other counterparties.

Note 4 of the Annual Accounts contain additional details on risks associated with the financial assets used by the Group and Note 38 describes the hedging instruments.



Business areas

Repsol YPF reinforced its exploration and production activity in the United States, North Africa, Trinidad and Tobago, Peru and Brazil, key areas that secure its organic growth through 2012



Exploration and Production

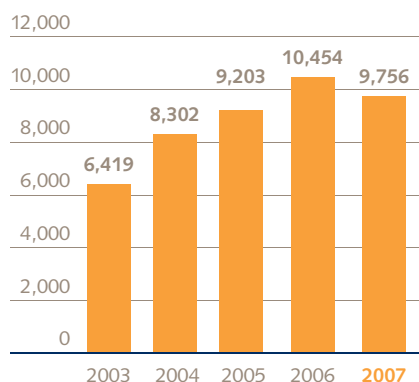
Income

Income from Exploration and Production operations in 2007 was €2,968 million, compared with €3,286 million obtained in the previous year, which is a decrease of 9.7%. EBITDA totalled €5,227 million versus €5,609 million in 2006.

This reduction was mainly due to the effect of the 8.4% depreciation of the US dollar against the euro, which resulted in €285 million less income, to the increase in production costs (€277 million), to the increase in technical amortisations (€155 million) as a consequence of an increase in investment, and to the increase in exploration activity bringing about greater expenditure in exploration (€174 million).

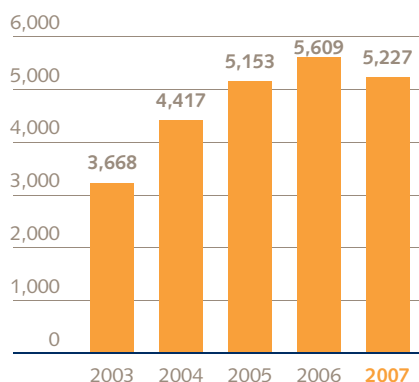
Operating revenues

Million euros



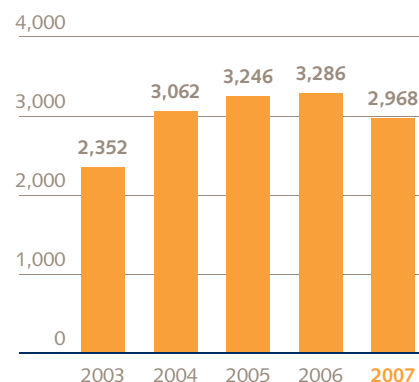
EBITDA

Million euros



Income from operations

Million euros



The activity, mostly as a result of the improvement in crude oil prices, which was partially compensated by the decline in certain fields in Argentina, increased income by €477 million. Additionally, the cancellation of the operating contract in Dubai and the rest of the contractual changes reduced income by €119 million, which had practically no effect on net income.

The average sale price of Repsol YPF's basket of liquids was US\$49.84 per barrel (€36.38 per barrel) compared to US\$46.29 per barrel (€36.88 per barrel) in 2006. The average price of gas was \$2.15 per thousand cubic feet, similar to that of the previous year.

Lifting costs increased in 2007 by €277 million, reaching US\$3.82 per barrel, 32.2% higher than in 2006. This increase was mainly in Argentina due to accumulated inflation, contract renegotiations and the maturity of the fields, which have a direct impact on the increase in costs, and in Trinidad and Tobago, due to increased expenditure on safety and environment. Finding costs were US\$32.41 per barrel, with an average of US\$6.78 per barrel for the 2003-2007 period.

Ensuring growth

The activities developed by Repsol YPF in 2007 continued to strengthen its position in key areas for the company, such as the Gulf of Mexico (United States), North Africa, Trinidad and Tobago, Peru and Brazil, and ensured organic growth by maximizing the profitability of assets and the increase in production and reserves for the 2008-2012 period.

Repsol YPF has significantly increased its presence in the deep waters of the Gulf of Mexico (United States) in the last two years with the entry into the major Shenzi-Genghis Khan petroleum development project and having obtained a large number of new exploratory blocks, this area is considered one of the most profitable areas in the world and to have the greatest deep-water exploration potential.

In June 2007, the official U.S. Mineral Management Service (MMS) approved the unification of Shenzi and Genghis Khan (Shenzi Unit). During this same year the purchase of 28% of the Genghis Khan oil field, discovered in 2005, was finalised. This purchase, in conjunction with the purchase of 28% of the Shenzi field in 2006, forms part of the company's strategy to diversify and grow in OECD countries. The Shenzi/Genghis Khan fields, so far, comprise one of the largest discoveries in the deep waters of the Mexican Gulf.

Genghis Khan entered into production in October 2007 and its complete development together with Shenzi, begins in 2009, and will significantly increase company production and reserves in the coming years.

Development work continued on the release to production of the Neptune field, which is forecast for the first half of 2008. The Neptune consortium is made up of Repsol YPF (15%), BHP Billiton (35%, operator), Marathon Oil Corp (30%) and Woodside Energy Inc. (20%)

In October 2007, Repsol YPF obtained 18 new exploratory blocks, including GC-423, in association with the Marathon Company, and GC-348, in conjunction with Chevron, both with great potential.



In **North Africa**, Repsol YPF has a major presence, centred in Libya and Algeria. In these countries, there are significant projects under way that will enable sustained and profitable growth for the next few years.

In **Libya**, the national company (NOC) approved the development plan for the I/R field, located in the prolific Murzuq basin in blocks NC186 and NC115, both of which are partially owned by Repsol YPF. The I/R field, which was discovered in 2006, is one of the greatest discoveries the company has ever made and the greatest in Libya in the last ten years. It has a production potential of some 90,000 barrels per day and its development will increase the reserves and production of the company in that country. The I/R field is expected to be released for production in the second half of 2008.

Additionally, the NC186 block consortium partners (Repsol YPF, Total, OMV and StatoilHydro) approved the development plans of fields J and K, which were sent to NOC in October 2007 to be reviewed and approved. Furthermore, the NC-200 block partners (Repsol YPF and OMV) approved the development plan for field E, which was also sent to NOC in October for approval.

In 2007, drilling work on 16 exploratory wells was completed, of which 5 produced new discoveries.

In 2007 a new gas discovery was made in the Reggane basin **Algeria**, adding to those made in the same block in previous years. The work and reports required to obtain the Reggane declaration of commerciality from Sonatrach in 2009 should be completed in 2008, which will enable the development of this significant gas project to be started. Also in 2007, 1,542 km of 2D seismic data and 265 km² of 3D seismic data were purchased in Algeria.

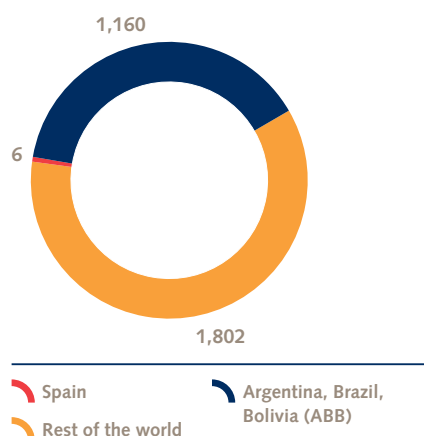
One of the main areas of future growth for the company is **Brazil**, where Repsol YPF is the leading private company in exploratory offshore mining in the basins of Santos, Campos and Espiritu Santo, with 23 exploratory blocks, of which the company operates 11.

Additionally, Repsol YPF holds 10% of the Albacora Leste (Santos Basin) field, which has been in production since April 2006. This important oil field in Brazil's deep waters produced 160,000 barrels/day in 2007 and production is expected to reach 180,000 barrels/day. The total proven and probable reserves at 31 December 2007 for the field were estimated at 464 million barrels.

At the end of 2007, a major exploration discovery was made in the deep waters of the Santos Basin with the Caricoa well. This strengthens the company's strategy in the Brazilian offshore and represents one of the key growth projects in the upstream area. A major seismic campaign was also carried out in the Santos Basin with the acquisition of 2,986 km² of offshore 3D seismic data.

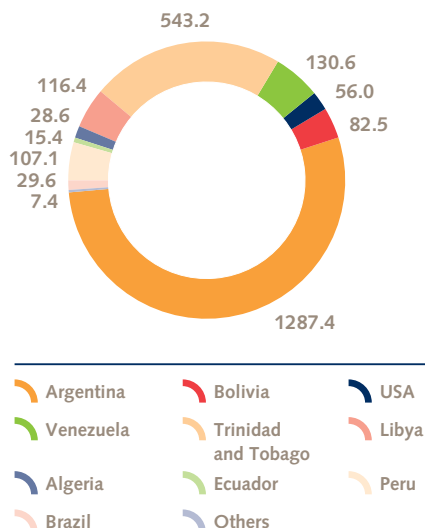
2007 Income from operations by geographical areas

2,968 million euros



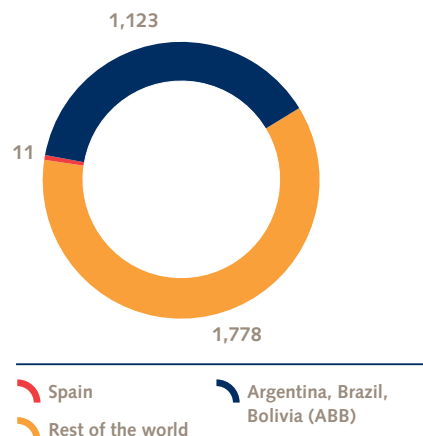
Geographic distribution of proved net reserves at 31-12-2007

2,404 million boe



2007 Investments by geographical areas

2,912 million euros



Argentina and Bolivia

In **Argentina**, within the framework of the strategic agreement signed with ENARSA in 2006 for the exploration, development and production of hydrocarbons on the Argentinean continental platform, a seismic exploration campaign was undertaken in the Colorado Marina Basin, where 1,537 km² of offshore 3D seismic data were registered. In addition, 1,076 km² of 3D were registered in operated areas (Neuquén and Austral basins).

In **Bolivia**, in May 2007, the new operation contracts signed with the government entered into force. They regulate the company's activities in this country within the legal framework established by the Hydrocarbons Law and the Nationalisation Decree. In accordance with the provisions of said contracts, on 29 October 2007 YPFB was presented with estimated development plans for each one of the contract areas. These plans left evidence that until YPFB notifies the holder of the designated production market, whose commercial conditions confer economic viability on the project, said plans are estimates of potential investments of the areas and not investment commitments.

The Caribbean and other geographical areas

In **Trinidad and Tobago**, Repsol YPF is one of the two largest private companies in terms of oil and gas production and reserves, along with BP, with which it shares ownership of bpTT. Repsol YPF has a 30% stake in bpTT, who operates an extensive hydrocarbon offshore production area and in 2007, reached an average daily production of 454,000 barrels of oil equivalent.

The development of the Shenzi/Genghis Khan field in the Gulf of Mexico (United States) will significantly increase the company's production and reserves

During the fourth quarter of 2007, the bpTT fields Mango and Cashima entered into production, which enabled an increase in the availability of gas for train 4 of the Atlantic LNG liquefaction plant, of which Repsol YPF holds 22.22%.

Additionally, 2007 saw the completion of the regional assessment of the blocks Teak, Samaan and Pouï (TSP), which was commenced in 2006. Following this process, 14 prospects and leads were identified. These are currently being worked on in order to reach maturity.

In **Venezuela**, in May 2007, Repsol YPF signed a Memorandum of Understanding (MOU) with PDVSA, which contained the conditions to include the fields Barúa and Motatán in the Mixed Company Petroquiriquire, of which Repsol YPF holds 40%. The agreement is pending the approval of the Venezuela National Assembly, which is forecast for 2008.

During 2007, Repsol YPF carried out fourteen hydrocarbon discoveries in Libya, Algeria, Argentina, Bolivia and Brazil

Repsol YPF worked in conjunction with PDVSA to assess the reserves of the block Junín-7, which should be finalised in 2008. Similarly, negotiations with the Venezuelan authorities continued with the aim of enabling Repsol YPF to participate in one of the new Faja del Orinoco heavy crude oil projects. Additionally, in the second half of the year, electricity generation at the Termobarrancas plant (100% Repsol YPF) commenced.

In **Peru**, during 2007, the work to completely develop the Camisea field (blocks 56 and 88), of which Repsol YPF holds 10%, continued according to plan. These blocks will supply natural gas to the future liquid gas plant of the Peru LNG project, which is estimated to be operational in 2010. Repsol YPF holds 20% of the project. In block 88, two deposits are being developed, San Martín (already in production) and Cashiriari, and in block 56 the Pagoreni deposit.

In block 39, which has a surface area of 8,868 km² and is operated by Repsol YPF who holds a 55% share, work continued on the concept phase of the programme to develop the resources discovered in 2006 (Raya exploration well) and 2005 (Buenavista exploration well), analysing the different technical alternatives to produce and dispose of heavy crude. This study will be complemented by the results of the appraisal wells to be drilled in 2008, once the relevant environmental permits have been obtained. Also in 2007, a 2D seismic campaign of around 1,000 km was prepared, which will commence in the first half of 2008.

In January 2008, a major exploration discovery was made in the Kinteroni X1 well in block 57, which is operated by Repsol YPF and located in the Ucayali-Madre de Dios Basin in the central forest of Peru, 50 km from the Camisea gas and condensate field.

In the Middle East, in **Iran**, the national company NIOC confirmed in June 2007 the commerciality of the discovery made in January 2005 with the Band e Karkheh 2 exploratory well in the Mehr onshore block. The development plan is being negotiated and an agreement should be reached in the first half of 2008.

In January 2007, Repsol YPF Oriente Medio, S.A. (Spain) and Shell signed the Service Contract for the Persian LNG project. This agreement would regulate future exploration, development and production activities in the areas assigned in the South Pars gas field for supplying the possible future LNG plant in Tombak. The Final Investment Decision (FID) regarding the liquefaction plant and the commencement of exploration and development operations has not yet been made.

New areas

An area of great development potential and interest for the company is **Russia**. Repsol YPF holds 10% of the company West Siberian Resources, which allows it to participate in the development of exploration and production projects in Russia, where WSR holds assets of great potential. In December 2007, West Siberian Resources signed an MOU (Memorandum of Understanding) to merge with the Russian company Alliance, whose main assets are the Khavarošk refinery with a capacity of 4 million tonnes per year, 156 service stations in the far east of Russia, storage terminals and two production licenses in Kazakhstan and Tatarstan with 100 million barrels of proven and probable reserves. Similarly, in addition to LNG projects, Repsol YPF holds an agreement with Gazprom, signed in 2006, to study the possible development of exploration and production projects in Russia, Latin America and Africa.

In **Alaska**, in July 2007, Repsol YPF reached an agreement with the companies Shell Offshore Inc. and Eni Petroleum US LLC to explore 71 offshore blocks adjacent to the Beaufort Sea, to the north of the prolific Prudhoe Bay and the Kuparuk crude oil fields. Repsol YPF has a 20% stake in these blocks.

In the first quarter of 2008, Repsol YPF had already obtained 93 blocks in the 193 exploratory rounds. These offshore blocks are located in the Chuckchi Sea and have a surface area of 2,139 km². In this area of Alaska, which has not been fully explored and has a great resource potential for discovery, the company's objective is to create a broad portfolio of projects.

Discoveries

In 2007, 14 exploratory discoveries of hydrocarbons were made by Repsol YPF in Libya, Algeria, Argentina, Bolivia and Brazil. In early 2008, a major discovery was made in Peru.

In **Libya**, during 2007, drilling work on 16 exploration wells was completed. 5 new discoveries resulted from this work: two in block NC186 (exploratory wells L1 NC186 and Q1 NC 186), two in block NC200 (exploratory wells G1 NC200 and H1 NC200) and one in block NC206 (exploratory well A1 NC 206).

In **Algeria**, in block 351c-352c (Reggane Nord) in the Reggane basin, a new exploratory discovery of gas was made in mid-2007, with the Reggane 6 well. Repsol YPF is the operator of the block and has a 45% stake in it, with RWE DEA holding 30% and Edison 25%. The block, located in the central-southern region of the Algerian Sahara, covers an area of 8,566 km². This discovery is in addition to three that were already made in the same block, two in 2006 (exploratory wells Sali-1 and Kahlouche-2) and one in 2005 (exploratory well Reggane 5).

In **Argentina**, 23 exploratory wells were finalised with the result of 6 discoveries (Los Cavaos Este x-2, Borde Sur del Payún x-1, Estancia Baltaza x-3, Rincón Amarillo x-5, Borde Sur del Payún x-1s and Arroyo Gamma SE x-2001).



In December 2007, Repsol YPF announced that it had discovered a gas deposit in **Bolivia**. Following 18 months of drilling and an investment of \$60 million, the Huacaya X-1 well, located in the Caipipendi Block, registered flows of close to 800,000 cubic metres of gas per day (0.3 bcm per year), equivalent to 1% of Spain's annual consumption. Repsol YPF is the consortium operator that exploits this field with a 37.5% stake, alongside British Gas also with 37.5% and Panamerican Energy with 25%.

In **Brazil**, in 2007, Repsol YPF discovered a new deep-water oil field in the Santos Basin. The discovery of the Carioca exploratory well in block BM-S-9, operated by Petrobras, which has a 45% stake with Repsol YPF holding a 25% share and British Gas 30%. Carioca, located 273 kilometres from the coast of São Paulo at a depth of 2,140 metres, registered a production test of 2,900 barrels of crude oil and 57,000 cubic metres of gas per day.



This discovery contains highly significant oil resources, and will need additional investments in delineation wells and new technology in order to define its development plan. It strengthens the company's presence in the Brazilian offshore, which has been confirmed as one of the group's main areas of growth.

In **Peru**, in January 2008, a discovery was made in block 57 with the Kinteroni X1 exploratory well. Repsol YPF is the consortium operator that will exploit the field with a stake of 53.84%, the remaining 46.16% belonging to Petrobras. The first production tests registered flows of 1 million cubic metres of gas per day (0.365 bcm/year) and 198 cubic metres per day of associated liquid hydrocarbons (72,270 cubic metres/year). In order to establish a commerciality and development plan of the discovery, a 3D seismic campaign will be carried out on the structure of Kinteroni and several delineation and exploration wells will be drilled in the block. All this will enable a more precise assessment of the discovered resources, which, preliminarily, are estimated at around 2TCF (56 bcm).

Production and reserves

In 2007 Repsol YPF's production of hydrocarbons was 1,039,200 barrels of oil equivalent per day, 7.9% less than in 2006. Production levels, deducting contractual variations in Dubai (16.2 thousand boepd), Venezuela (12.1 thousand boepd) and Bolivia (48.5 thousand boepd), in 2007 were similar to the previous year, showing a decrease of 1%. The largest drop was in Argentina (4%), although part of this was due to the breakage of the Magellan polyduct. If this unusual effect is excluded, Argentinean production would only have dropped by 2.6%. On the contrary, in the rest of the world, production rose by 3.3% mainly due to increases in Brazil (9.8 thousand boepd), Trinidad and Tobago (4.9 thousand boepd) and Libya (3.7 thousand boepd).

With regard to company reserves, at the close of 2007, proven reserves, estimated in accordance with US Securities & Exchange Commission (SEC) regulations, reached 2,404 million boe, of which 952 million boe (40%) correspond to crude oil, condensates and LNG, and the remaining 1,453 million boe (60%) to gas.

The increase of the company's reserves in 2007 was positive with the incorporation of 171 million boe, notably the incorporation of Argentina (121 million boe), Bolivia (21 million boe) and Libya (18 million boe). Repsol YPF's reserves are mainly located in Argentina (54%) and Trinidad and Tobago (23%). 15% of these reserves are located in other South American countries (Venezuela, Peru, Bolivia, Brazil, Ecuador and Colombia), 6% in North Africa (Algeria and Libya) and the remaining 2% in the Gulf of Mexico following the new acquisitions.

Liquefied natural gas products

In the liquefied natural gas area (LNG), Repsol YPF has been developing a policy that reinforces its competitive position in this business, key to its growth in the mid- and long-term.

Repsol YPF is present in the **Trinidad and Tobago** integrated LNG project, in which it participates together with BP and BG, amongst other companies, in the Atlantic LNG liquefaction plant. Its strategic geographical location enables it to supply the markets of the Atlantic Basin (United States, the Caribbean and Europe) under economically advantageous conditions.

This plant has four liquefaction trains in operation with a joint capacity of 15 million tonnes a year. Repsol YPF's stake is 20% in train 1, 25% in trains 2 and 3 and 22.22% in train 4. Train 4 is one of the largest in the world with a production capacity of 5.4 million tonnes per year. In addition to its share in the liquefaction trains, Repsol YPF is a stakeholder in the gas supply and one of the main LNG buyers (some 3.2 million tonnes per year).

In **Canada**, Repsol YPF has a share, along with Irving Oil, in the Canaport project to construct and operate the first LNG regasification plant on the east coast of Canada. Located in Saint John, New Brunswick and with an initial supply capacity of 10 bcm/year (1,000 million cubic feet/day, extendable to 2,000 million cubic feet/day), the Canaport terminal is one of the largest in North America and will supply the east coast of Canada and the northwest of the United States. Repsol YPF, with a 75% share, will operate the plant and supply the LNG that will feed the terminal, with the corresponding regasification capacity. The plant is forecast to be in operation at the beginning of 2009.

In 2007, construction work at the plant went according to plan. Construction work on the maritime terminal has practically finished and the consortium approved the EPC (Engineering, Purchase and Construction) for a third LNG tank, which will increase the capacity of the plant just one year after its start up and will enable it to receive cargoes in the largest methane tankers ever constructed. Work also began on the gas pipeline in New Brunswick (Canada) and Maine (United States), enabling the natural gas received in the Canaport plant to be transported to the north-eastern markets of North America.

In 2007, the company incorporated 171 million boe of proven reserves

In **Peru**, the Peru LNG integrated liquefied natural gas project is being developed. It is one of the largest projects in the 2008-2012 Strategic Plan and in 2007 it continued to make positive progress. At the start of the year, the EPC (Engineering, Purchase and Construction) contract was awarded and the permits for construction of the plant were obtained which, like the gas pipeline, is progressing in accordance with the planned time frame. Additionally, development of the Cashiriari field in block 88 started, where the San Martín field is already in production and work is continuing as planned in block 56.

August 2007 saw Marubeni enter the Peru LNG project with the purchase of a 10% stake from the Korean company SK. Holdings in the project are: 50% Hunt Oil, 20% SK, 20% Repsol YPF and 10% Marubeni. Furthermore, in December 2007, agreements to finance the project were established.

In **Iran**, in January 2007, Repsol YPF and Shell signed the Service Contract for the Persian LNG project, which includes conditions for exploration and development operations in phases 13 and 14 of the South Pars field. The production of these phases would supply a future LNG plant, which would have two liquefaction trains, each with a capacity of 8.1 million tonnes per year. As well as Repsol YPF (25%), two other companies also participate in the midstream part of the project, Shell (25%) and NIOC (50%). In accordance with the agreement signed by the parties, Repsol YPF and Shell would share 50% of the production of the first of these trains (4 million tonnes per year). The Final Investment Decision (FID) on the liquefaction plant and the start of exploration and development operations has not yet been made.

Perú LNG: gas for the Pacific

Peru LNG is one of the largest projects in Repsol YPF's 2008-2012 Strategic Plan and will be key for the organic growth of the company.

In 2005, Repsol YPF signed an agreement with the American company Hunt Oil to enter the project with a 20% stake. The agreement also comprised entrance into the Camisea field, in which Repsol YPF has a 10% stake in blocks 88 and 56.

The Peru LNG project includes the construction and operation of a liquefaction plant in Pampa Melchorita, in which Repsol YPF has a 20% stake, and a gas pipeline that will be connected to the existing pipeline in Ayacucho. The supply of natural gas to the plant will come from the Camisea deposit using the production from blocks 56 and 88, in a first and second phase respectively, until the contracted volume is completed.

The project also contemplates Repsol YPF's exclusive selling rights of total production from the liquefaction plant (forecast at more than 4.5 million tonnes per year). The sales-purchase agreement with Peru LNG will have an 18 year duration from the start of commercial operations and, due to the volumes involved, represents the largest LNG acquisition ever carried out by Repsol YPF.

The plant is expected to be operational in 2010, when it will start to supply diverse markets on the American Pacific coast, in Asian countries and Mexico.

In September 2007, Repsol YPF won the international public tender organised by the Federal Commission of Electricity to supply LNG to the natural gas terminal in the port of Manzanillo, on the Mexican Pacific coast.

The contract, whose value is estimated to reach \$15,000 million, contemplates the supply of LNG to the Mexican plant for a period of 15 years with a volume exceeding 67 bcm, equivalent to double the annual consumption in Spain. The Manzanillo plant, which will supply gas to the Federal Commission's electricity power stations in western-central Mexico, will supply gas from Peru LNG.

With regard to the integrated Gassi Touil project, which is being developed in **Algeria**, the national Algerian company Sonatrach unilaterally resolved the contract relating to said project in August 2007. Repsol YPF and Gas Natural SDG, which were awarded the project in 2004, are currently involved in an international arbitration process.

In **Angola**, in December 2007, Repsol YPF and Gas Natural signed a share agreement with Sonagas (Sonangol-Gas Natural) with the aim of developing an integrated gas project in this country. Sonagas (40%), Repsol-Gas Natural (20%), Eni (20%) Galp (10%) and Exem (10%) form the project consortium.

The project consists of assessing the gas reserves to establish the necessary investments to develop and export them as liquefied natural gas.

Transport and commercialisation of LNG

The joint venture Repsol-Gas Natural LNG (Stream), with 50% ownership by each of the companies, is the third largest group in the world in terms of LNG transport and the leading operator in the Atlantic basin. In 2007, it commercialised 18.5 bcm of LNG and carried out operations with Trinidad and Tobago, Nigeria, Oman, Libya, Egypt and Qatar, managing 231 cargos.

In 2007 the time charter contract was signed for four new vessels to transport LNG, one with Naviera Elcano and three with Knutsen OAS. The four vessels, which will commence operations in 2010 for the Peru LNG project, will have a nominal capacity of 173,000 cubic metres of LNG each and incorporate the latest available technology. In November 2007, Knutsen OAS delivered the methane tanker Sestao-Knutsen, which has the capacity to transport up to 138,000 cubic meters of gas. With this incorporation, Stream operates a total fleet of 12 LNG tankers. In the first half of 2009, the fleet will incorporate a new Knutsen vessel, which is already in operation.

In the liquefied natural gas area, Repsol YPF is reinforcing its competitive position, key for its growth on a long and short term

Investments

Investments made in the area of Exploration and Production in 2007 reached €2,912 million, 23.8% less than in 2006. This decrease is mainly because the previous year included the purchase of the Shenzi field in the American Gulf of Mexico for €1,727 million.

In 2007, investments were mainly focused on the acquisition of 28% of the Genghis Khan Field in the Gulf of Mexico (United States) for \$352 million (€257 million), on investments in development, on the construction of the regasification plant in Canaport and on the Peru LNG project.



Investment in development represented 56% of the total and mainly carried out in Argentina (53%), the United States (16%) and Trinidad and Tobago (13%). Total investment in exploration amounted to €673 million, 39% higher than the previous year.

Operating highlights

	2005	2006	2007	2007/2006 % variation
Net liquids production (Thousand boe)				
Spain	880	729	731	0.3
Argentina, Bolivia, Brazil (ABB)	145,535	139,167	132,512	(4.8)
Rest of world	47,453	51,802	42,932	(17.1)
Total Oil	193,868	191,698	176,175	(8.1)
Net natural gas production (Million cubic feet)				
Spain	2,125	1,656	—	—
Argentina, Brazil, Bolivia (ABB)	889,139	881,645	783,660	(11.1)
Rest of world	355,368	352,841	356,945	1.2
Total natural gas	1,246,632	1,236,142	1,140,605	(7.7)
Total production (Thousand boe)	415,886	411,848	379,310	(7.9)

Gas to oil equivalent conversion factor: 5,615 (standard cubic feet of gas per barrel of oil equivalent).

Refining and Marketing

Income

Income from Refining and Marketing activities in 2007 showed 27.1% growth with respect to 2006, reaching €2,358 million compared to €1,855 million in the previous year. EBITDA totalled €2,545 million compared with €2,640 million in 2006.

This increase in income is mainly due to the rise in the refining margin, which, along with a higher level of distillation (1.4%), led to an increase in income from operations of €240 million. Repsol YPF's refining indicator margin was \$7.21 per barrel in 2007. Additionally, income for 2007 includes €315 million from the sale of 10% of CLH shares.

In 2007, the LPG (Liquefied Petroleum Gas) commercial margins business dropped in Spain and Bolivia and increased in the rest of the countries. In Spain, this decrease was due to the delay in the transfer to the retail sale price of bottled LPG, of fluctuations in international prices of raw materials, in a year of strong growth in prices, whereas in Bolivia it was a consequence of the reduction in the wholesale margin.

Refining

The total installed capacity of the nine refineries operated by Repsol YPF in 2007 (five in Spain, three in Argentina and one in Peru) was 1,162 thousand barrels per day. Additionally, Repsol YPF has holdings in another refinery in Argentina and two in Brazil. Including all these stakes, the total refining capacity of the company is 1,233 thousand barrels per day.

In 2007, Repsol YPF's refineries processed 56.9 million tonnes of crude oil, 1.4 % more than in 2006.



To consolidate its leadership in the Spanish market Repsol YPF is currently implementing an ambitious investment plan for its refineries in Spain. The refining capacity will be increased, as will the level of conversion and safety, environmental and efficiency aspects of the installations will be improved. Key to this plan is to expand this project and increase conversion in the Cartagena plant, approved in December 2007, and the project to increase conversion in the Petronor refinery.

Additionally, the investment plan will also permit the production of 10 ppm sulphur fuels in all the complexes before 1 January 2009 and will contribute towards meeting objectives of the European Union and the National Renewable Energies Plan for the development of biofuels.

Marketing

By employing a multiple brand strategy, Repsol, Campsa and Petronor in Spain, YPF in Argentina and Repsol in the rest of the world, the company markets its product range through its vast network of service stations. The company's marketing activity also includes other sales channels and the commercialisation of products such as lubricants, asphalts, coke and derivative products.

Total oil product sales in 2007 rose by 4.7% to 61,467 thousand tonnes, with a 0.3% growth in Spain, 10.1% in Argentina, Bolivia and Brazil (ABB) in Latin America and 11.9% in the rest of the world. With regard to self-marketing, the sale of clear products in Spain rose by 2%, whilst in ABB and the rest of the world the increase was 8% and 22%, respectively.

At the end of 2007, Repsol YPF had a worldwide total network of 6,514 service stations. In Spain, the service stations network was made up of 3,568 sale points, 76% with a strong concessionary link and 939 (26%) managed by the company.

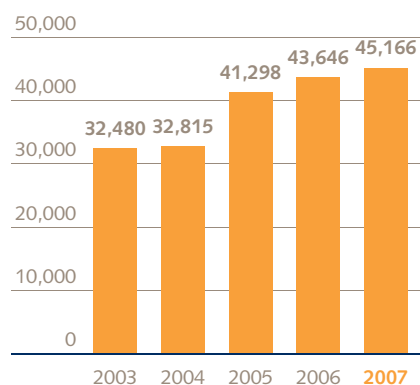
The expansion of the Cartagena and Petronor refineries are key projects included in the Refining Strategic Plan

In the rest of Europe, the number of service stations was 440 in Portugal and 111 in Italy. In Latin America, at the end of 2007, Repsol YPF had 1,713 service stations in Argentina, 314 in Brazil, 120 in Ecuador and 230 in Peru.

As part of its divestments in non-strategic assets strategy, in December 2007, Repsol YPF sold its liquid fuel marketing activities in Chile to the Colombian company Organización Trepel for \$210 million. The sale included 206 service stations, as well as the industrial sales business and the commercial and logistics infrastructure. In Chile Repsol YPF has maintained its aviation, lubricants, specialities, and LPG businesses, a sector in which it is market leader through its holding (45%) in Lipigas.

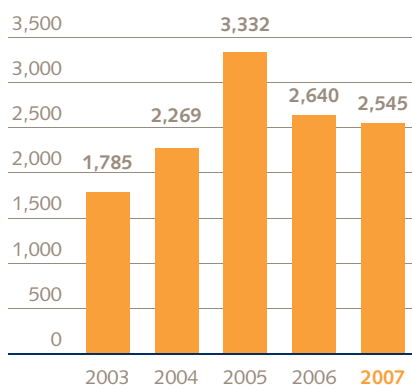
Operating revenues

Million euros



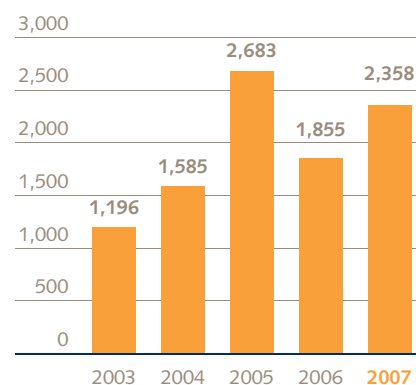
EBITDA

Million euros



Income from operations

Million euros



Within the framework of this policy, Repsol YPF sold 10% of its stake in Compañía Logística de Hidrocarburos (CLH) to Deutsche Bank for €353 million. Following this sale, which was executed in two parts, Repsol YPF's share in CLH is 15% and it is still the leading Spanish industrial shareholder and the logistics company's main client.

In 2007, Repsol YPF continued its policy to improve its service quality, which as well as satisfying new needs, is consolidating the company's leadership in the technological innovation of its products and services. More than 190 service stations have a Sprint Point, a platform that offers customers access to a large number of frequent purchase services. Additionally, through Sprint WiFi, wireless access to Internet is provided in 550 service stations and the Repsol Multimedia Channel offers consumers news, entertainment, advertising and promotions.

Cartagena, the largest industrial investment realised in Spain

The expansion of the Cartagena refinery is one of Repsol YPF's key projects in its 2008-2012 Strategic Plan and will enable the company to optimise its assets and consolidate its position as leader in refining. With an investment of €3,262 million, this complex will become one of the most modern in the world and will double its production capacity, reaching 11 million tonnes per year (220,000 barrels per day).

The project contemplates, amongst other units, a new hydrocracker with a capacity of 2.5 million tonnes per year, a new cooker of 3 million tonnes per year, as well as crude oil distillation and vacuum units, and the desulphuring (2.8 million tonnes per year) and hydrogen plants.

The start up of the new units will enable the Cartagena refinery to maximise the production of clean transportation fuels. More than 50% of the complex's production will be medium distillates, mainly gas oils, which will contribute to significantly reducing the growing deficit of these products in Spain.

The development of this project, which is planned to start in the second quarter of 2011, will provide employment for more than 6,000 people in the construction phase and will generate close to 700 jobs once in operation. It will also lead to more than 3.5 million hours of engineering and 20 million hours of construction. The financial and industrial scale of the project makes it the largest industrial investment ever to be made in Spain.



Repsol YPF has put into operation the first accessible service station in Spain, in which all the employees have different disabilities

An important aspect of the Repsol YPF's marketing strategy is their customer loyalty programmes using specific cards.

Last year, Repsol YPF launched a new card, Solred MÁXIMA, offering the customer discounts of 5% on all services and products in the service station shops and 1% on fuel.

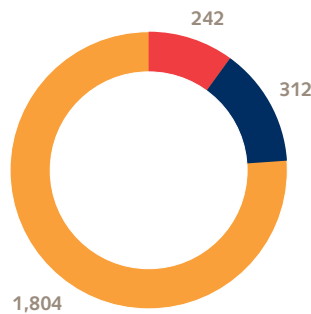
Furthermore, it offers payment possibilities in garages, motorways and a wide range of benefits. Solred MÁXIMA can be used in more than 3,800 Repsol, Campsa and Petronor service stations in Spain and Portugal.

Environmental concerns form part of the policy and strategy of the company, which places all its efforts on developing advanced technology products that respect the environment. Repsol YPF markets a wide range of latest generation fuels that respond to extremely strict quality and environment demands: Efitec 95 and 98 petrol, Diesel e+ and Diesel e +10.

In Argentina, the country's first biofuel, Gasolbio, was launched, satisfying customer expectations regarding latest technology products and marking a milestone in the development of fuels in the country.

2007 Income from operations by geographical areas

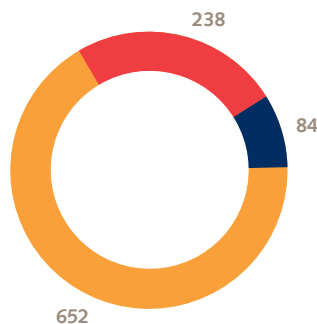
2,358 million euros



Spain
Rest of the world
Argentina, Brazil Bolivia (ABB)

2007 Investments by geographical areas

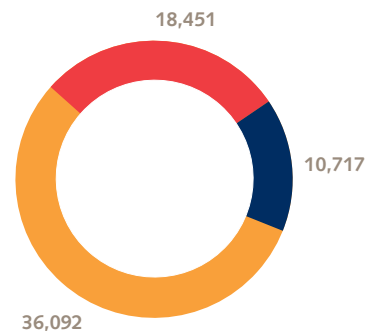
974 million euros



Spain
Rest of the world
Argentina, Brazil Bolivia (ABB)

2007 Sales by geographical areas

65,260 million tons



Spain
Rest of the world
Argentina, Brazil, Bolivia (ABB)



Loyal to its commitment to society, Repsol YPF established the first accessible service station in Spain in 2007, located in Móstoles, Madrid. The service station has been acknowledged with the UNE 170.001 AENOR certificate owing to it introducing criteria of global accessibility that eliminate architectural barriers in common services such as refuelling, vehicle washing, measuring and control of tyre pressure, as well as accessibility of products on sale and access to other spaces both in the shop and the service station. In addition to eliminating architectural barriers and favouring quality of life, all members of staff employed in the station have different disabilities.

World leadership in LPG

Repsol YPF is one of the world's leading retail distributors of GLP and is market leader in Spain and Latin America. Repsol YPF is present in ten countries in Europe, North Africa and Latin America.

Total LPG sales in 2007 reached 3,793 thousand tonnes, showing an increase of 1.8%. There was strong growth, 10.3%, in Latin America especially in Peru due to market development and in Chile, due to the unusually cold winter, and an increase of 9.4% in the rest of the world due to wholesale growth in Portugal.

The level of sales in Spain was slightly higher, 0.2%, whilst in ABB it decreased by 4.7% due to lower wholesale sales in Argentina caused by the reduction in product availability and retail sale restrictions in Bolivia.

In Spain, Repsol YPF distributes bottled, bulk, piped LPG through collective distribution networks, and has close to 10 million bottled LPG customers, supplied via a network of 617 distribution agencies. Bulk sales in 2007 represented 37% of total LPG retail sales.

With the aim of maintaining and strengthening its leadership in the Spanish market, improving service quality and guaranteeing the supply and current coverage, a factory Efficiency Plan was implemented in Spain for the 2007-2009 period, which has led to the cessation of bottling activities in 4 plants during 2008.

In Portugal, Repsol YPF distributes bottled and bulk LPG to the end customer and supplies other operators, reaching sales of 193,998 tonnes in 2007, making it the third operator with a 21% market share.

Repsol YPF total worldwide oil product sales reached 65.2 million tons

In Latin America, Repsol YPF is ranked leader in LPG distribution in Argentina, Ecuador, Peru and Chile. In the retail market in Argentina, it sells bottled and bulk LPG to the domestic, commercial and industrial markets with sales of 363,146 tonnes.

Investments

Investments in the Marketing and Refining area in 2007 reached €974 million, slightly higher, by 0.8%, than in 2006. The main investments were made in on-going refinery projects, as well as in operational improvements and improvements to facilities, safety and environment, fuel quality and conversion.

Operating highlights

	2005	2006	2007	2006/2007 % variation
Feedstock processed (Million tonnes)				
Crude	55.3	56.1	56.9	1.4
Other loads and raw materials	5.4	5.8	6.8	17.2
Total	60.7	61.8	63.7	2.9
Production (Thousand tonnes)				
Medium distillates	26,752	27,529	28,194	2.4
Gasoline	11,915	11,783	11,893	0.9
Fuel Oil	8,419	8,280	9,257	11.8
LPG	1,646	1,596	1,636	2.5
Asphalts	1,619	1,825	1,942	6.4
Lubricants	441	444	424	(4.5)
Others (excluding petrochemicals)	3,132	3,493	3,539	1.3
Total	53,924	54,949	56,885	3.5
Oil product sales (Thousand tonnes)				
Gasoline/ Kerosene	31,366	32,224	33,857	5.1
Gasoline	10,831	10,662	10,497	(1.5)
Fuel Oil	8,208	8,530	9,325	9.3
LPG ⁽¹⁾	3,343	3,725	3,793	1.8
Others	7,535	7,317	7,788	6.4
Total	61,283	62,457	65,260	4.5
Sales by territory (Thousand tonnes)				
Spain	35,552	35,977	36,092	0.3
Argentina, Brazil, Bolivia (ABB)	16,284	16,886	18,451	9.3
Rest of world	9,446	9,594	10,717	11.7
Total	61,283	62,457	65,260	4.5

(1) Since 2006 including Argentinean wholesale sales

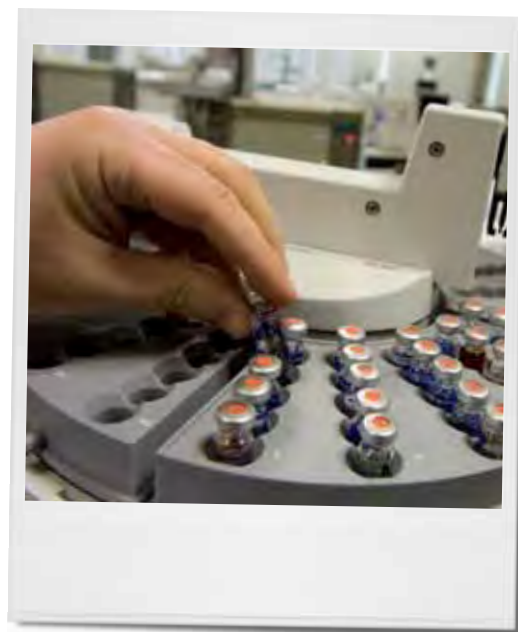
Chemicals

Income

Operating income for the Chemicals business during 2007 reached €231 million, 34.6% less than the €353 million achieved in the previous year. EBITDA was €402 million, versus the €490 million of the previous year.

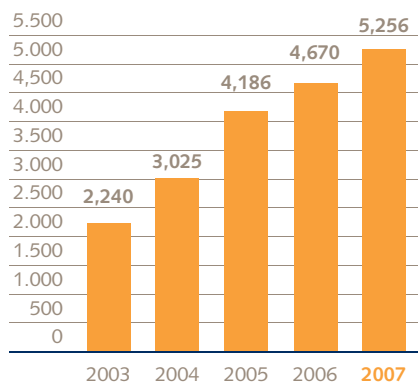
The decrease in income was due to the fall in the base chemicals margin, particularly during the last quarter of the year, as well as less activity in Argentina, due to the restrictions in the natural gas supply, which affected the production of urea and methanol.

In 2007, the base chemicals margin was 7.8% lower than that registered in 2006. The drop during the last quarter was particularly significant as it was reduced to almost half. This trend reflected the nafta price levels, caused by crude oil prices, which also led to an increase in the price of energy.



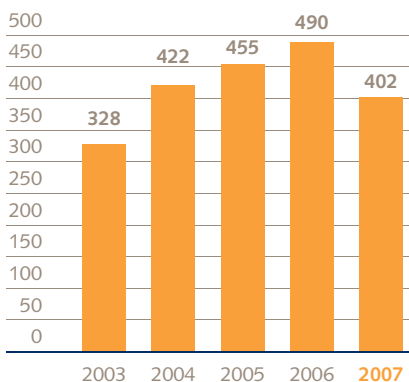
Operating revenues

Million euros



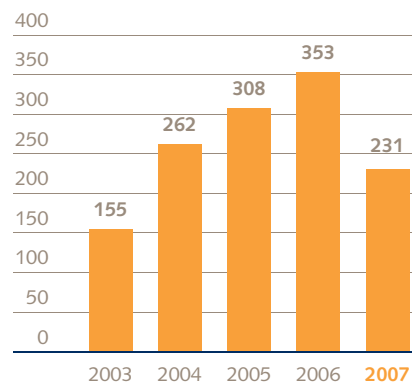
EBITDA

Million euros



Income from operations

Million euros



Sales growth

Total sales of petrochemical products during 2007 was 4,926 thousand tonnes versus 4,778 thousand tonnes in 2006, representing a 3.1 % increase.

Of all sales in 2007, base petrochemical products represented 968 thousand tonnes, an increase of 3.4% with respect to 2006. By market, in Spain 265,000 tonnes were sold, 195,000 tonnes were destined for the ABB market and 507,000 tonnes to the rest of the world.

Derivative petrochemical sales were 3,958 thousand tonnes, an increase of 3% compared with the previous year. By market, 1,267 thousand tonnes were sold on the Spanish market, 1,163 thousand tonnes in the ABB area and 1,528 thousand tonnes on other markets.

Investments

During 2007, investments in the chemicals area accounted for €176 million, 20.7% less than the €222 million invested in 2006.

In 2007, the total sales of petrochemical products grew and reached 4.9 million tons

The most significant investments were made in the Tarragona complex for the extension of the cracker and the construction of a benzene plant with a capacity of 190,000 tonnes per year, which commenced operation during the last quarter of the year.

The 2008-2012 Strategic Plan contemplates as a key project for the company's growth, the extension of the Sines petrochemical plant, where production will be doubled, making it one of the most technologically advanced complexes in the European petrochemical industry. The project includes the construction of three new plants - linear polyethylene, polypropylene and an electrical energy plant as well as the expansion of the cracker by 40% to reach a capacity of 570,000 tonnes per year.

Operating highlights

	2005	2006	2007	2006/2007 % variation
Capacity (Thousand tonnes)				
Base petrochemicals	2,717	2,819	2,839	0.7
Derivative petrochemicals	4,655	4,677	4,877	4.3
Total	7,372	7,496	7,716	2.9
Sales by product (Thousand tonnes)				
Base petrochemicals	979	936	968	3.4
Derivative petrochemicals	3,665	3,842	3,958	3.0
Total	4,644	4,778	4,926	3.1
Sales by market (Thousand tonnes)				
Spain	1,481	1,560	1,532	(1.8)
Argentina, Brazil, Bolivia (ABB)	1,102	1,067	1,359	27.4
Rest of world	1,853	2,151	2,035	(5.4)
Total	4,644	4,778	4,926	3.1

Gas and Power

Income

Income from the Gas and Power area in 2007 totalled €516 million, 10% more than the €469 million achieved in the previous year. These figures reflect the favourable development of income from Gas Natural SDG, underlining the growth in distribution in Spain and Latin America and, particularly, the commercialisation of natural gas in Spain.

With regard to income from electricity, moderate growth was maintained as it was affected by the lower prices of the Spanish electricity pool, which recovered in the second half of the year.

EBITDA of this business area was €717 million, 21.1% more than in 2006.

Due to its 30.8474% share in Gas Natural SDG, Repsol YPF participates in the whole gas value chain, from supply through to distribution and sales. Gas Natural SDG is the market leader in Spain and Latin America and together with Repsol YPF is the world's third largest company in terms of transported gas volume. It is also one of the world's main operators of combined cycles with a strong presence in Spain and as of 2007 in Mexico, where it is the second largest private electricity generation operator.

Greater number of clients

Total sales of natural gas in 2007 reached 36.41 bcm (thousands of millions of m³). In Spain, sales were 22.15 bcm, slightly lower than in 2006, as a consequence of the modest growth of the Spanish market, in which conventional demand was affected by high prices and the gas demand for the electricity sector was less vigorous due to greater hydraulicity.

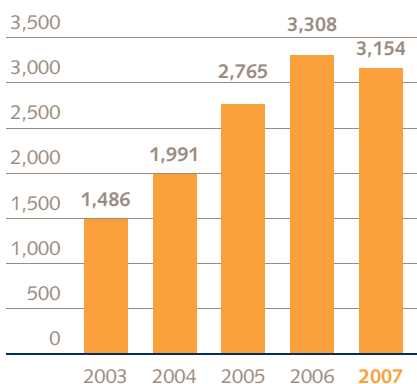
Natural gas sales in Spain were very favourable as a consequence of the commercial line developed by the company, based on the optimisation of the portfolio of gas contracts in the liberalised market and a price policy adapted to market conditions.

The number of clients in Spain rose by 246,000 reaching 5.7 million.

The growth in income in Latin America was mainly due to the strong distribution in Colombia and Brazil. This increase is even more significant if we take into account the fall in value of the dollar and of local currencies against the euro.

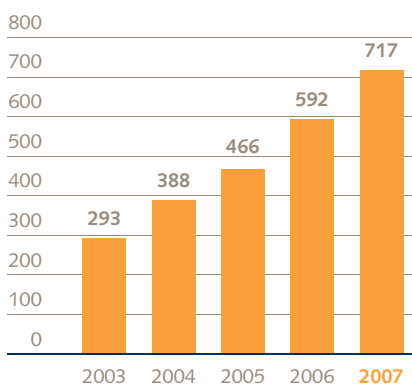
Operating revenues

Million euros



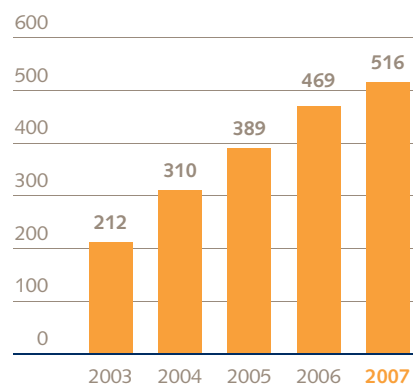
EBITDA

Million euros



Income from operations

Million euros



Sales in Latin America in 2007 reached 9.92 bcm, 8.0% higher than in 2006. The number of clients in Latin America reached 5.1 million following the incorporation of 170,000 new supply points.

Despite the lower prices of the Spanish electricity pool, electricity activity in Spain developed in a positive manner. With regard to generation, the total of the combined cycle, together with the power capacity in co-generation and wind power generators, produced 16,975 GWh in 2007, 4.8% less than in 2006. The power capacity in Spain in combined cycle reached 3,600 MW following the start up of Plana del Vent (800 MW) and in Malaga 400 MW is under construction. In the port of Barcelona another 800 MW combined cycle is in the final stages of obtaining the relevant permits and an 800 MW project is being developed in Lantarón (Álava).

International presence

International expansion continued in 2007. In December, Gas Natural purchased five combined cycle plants and a gas pipeline from EDF and Mitsubishi in Mexico. This operation has allowed the company to enter the Mexican electricity generation market as the second-largest private operator. The five combined cycle plants acquired have a total power capacity of 2,233 MW and the gas pipeline is 54 kilometres in length. These assets are valued at \$1,448 million.

Following this acquisition, the company operates 6,373 MW of electricity generation power capacity in Spain (3,600 MW), Puerto Rico (540 MW) and Mexico (2,233 MW).



Regarding gas distribution and sales, presence in the Italian market has been consolidated through the purchase of the Italmeco group, which operates in four regions in central and southern Italy. With this operation, the number of customers in Italy exceeds 350,000.

Investments

Investments in Gas and Power in 2007 reached a total of €651 million, 98.5% higher than in 2006. This increase is mainly due to the acquisition of the aforementioned assets in Mexico. Other investments were centred on natural gas distribution and electricity generation projects in Spain.

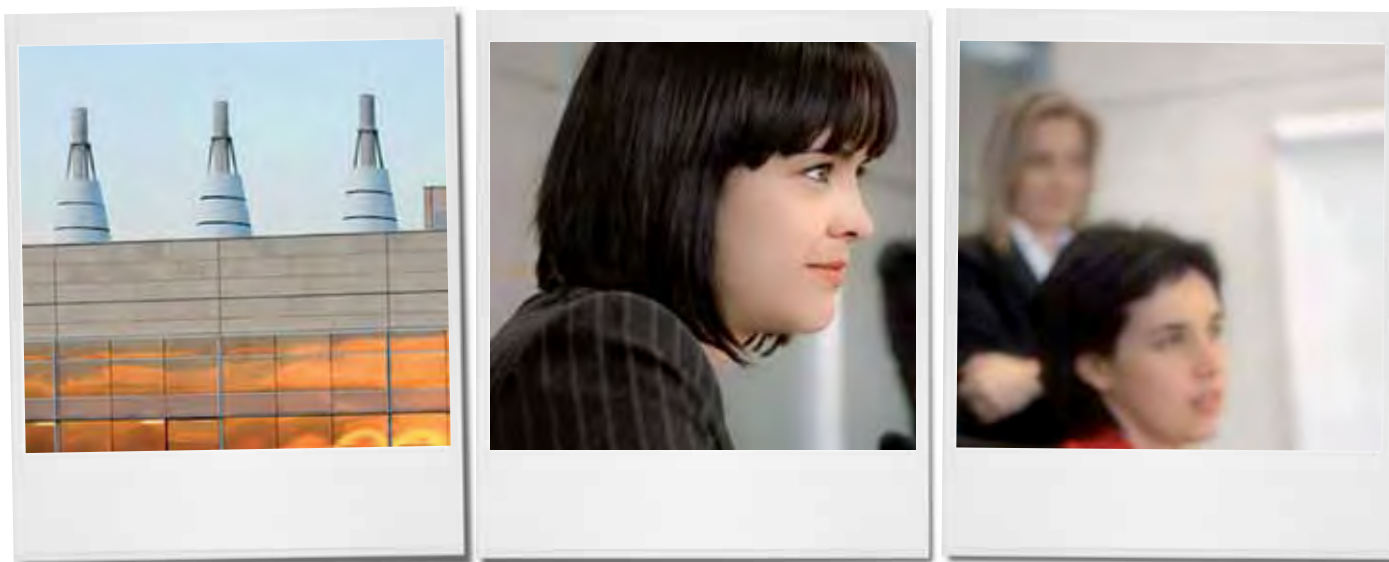
Operating highlights

	2005	2006	2007	2006/2007 % variation
Natural gas sales (bcm)				
Spain	23.36	23.11	22.15	(4.1)
America	8.59	9.19	9.92	8.0
Rest of world	4.16	3.90	4.34	11.1
Total	36.11	36.20	36.41	0.6

Incorporating 100% of Gas Natural SDG sales

Corporate areas

In 2007, the Diversity and Balance Committee was created in favour of equal opportunities and diversity, to promote reconciliation between work and personal life and to retain top talent within the company



Human Resources

Repsol YPF considers their employees as their main asset and it is essential to ensure that they occupy the position best suited to their profile and have the necessary opportunities for professional development in an environment of equal opportunities. For this reason, all the company's actions are focused on people management based on criteria of excellence.

Diversity and talent

Managing talent is one of the keys to competitiveness and future sustainability. The Repsol YPF workforce is characterised for its diversity of gender, age, nationality and professional profile. This means that talent can come in many forms and as a company, Repsol YPF must be prepared to identify and manage this talent. Accordingly, an appropriate talent management begins with an appropriate diversity management.

With this objective, in 2007 the Diversity and Balance Committee was created, involving managers from all fields, and focusing its activities on six areas: awareness and communication; attracting and retaining talent; balancing personal and professional life; managing diversity to ensure equal professional development opportunities; scorecard with diversity indicators for monitoring, and processes, norms and procedures for people management.

During 2007, Repsol YPF continued intense work in the area of labour reconciliation.

In October 2007, the first measures came into force for efficient management on time spent in meetings and their starting and finishing time zone, the already put into motion of early lights out in offices, as well as different actions related to communicating time schedules and the existent flexibility measures in the Collective Agreements.

Identification and visibility of talent

One of the objectives for 2007 was to identify people with potential in order to ensure that they are occupying key positions, and to whom the company provides appropriate development opportunities.

In this sense, one of the key tools is the People Review sessions where business/area committees meet to learn about and review their co-workers. The objective is to identify people with high potential, reviewing strengths and areas of improvement in order to draw up development plans so that the company counts on personnel who are prepared to achieve objectives. In the 54 sessions held in 2007, senior and junior managers dedicated over 2,300 hours to reviewing over 1,900 manager and high potential employees.

Another tool to develop talent is the development centre, a programme permitting greater knowledge of the potential, interests and aspirations of employees, information that is essential when planning their professional careers.

Last year different learning programmes were set up to improve the skills and abilities of all employees, for both senior and junior managers and executives. These included new editions of the Comprehensive Management Programme (PIM) with over 100 senior and junior managers taking part, as well as a new learning programme, "Leadership: Golf and Teams", created to support new managers (appointed after May 2005) to improve their team leadership skills.

Attracting talent

One of the new features of the organisational structure approved in May 2007 was the creation of the Corporate Direction of Management Development. Its objective is to make Repsol YPF the leading company for attracting, developing and retaining talent, as well as creating a diverse, excellent and motivated team to develop and meet strategic objectives.

Due to this strategy to transform the Group, this Corporate Direction answers to the Chairman and Chief Executive Officer, similar to other companies in the sector. This organisational structure demonstrates the importance that the company gives to talent management. Its creation has increased the profile of talent management programmes and has improved expectations of managers and employees.

The new Corporate Direction faces two great challenges: to develop a management team in accordance with strategic objectives and to drive the cultural transformation and implementation of a new management style. This implies working directly with executives, junior executives and high potential employees, to identify and become acquainted with talent and, above all, develop it.

A new management style

In 2007, the first year of Management by Commitments (GxC) was concluded, the management model that allows planning and evaluation of the performance and development of almost 11,000 employees by means of dialogue between managers and co-workers. One of its objectives is to ensure appropriate recognition of talent founded on merit, based on the five key behaviours defined by the Management Committee: taking responsibility and focusing on results; entrepreneurial spirit and excellence; cooperation; people development and merit-based recognition.

Upon completion of the first year of GxC, corresponding to 2006, an audit of the evaluations was carried out and based on its conclusions, a system improvement plan was drawn up which, when implemented, will progress towards excellence.

Likewise, following the 2006 Work Climate Survey, a diagnosis mechanism was established to identify strengths and areas of improvement. More than 200 reports were obtained and made available to managers of the different areas, who produced numerous plans of action designed by using a standardised methodology. Its consolidation has enabled a Transversal Action Plan to be drawn up for the entire company, focusing on three areas of work: diversity and balance, management style and people management.

Technical training

In 2007, the Groups Human Resources, Upstream and Production YPF Corporate Managements prepared a Technical Training Strategic Plan exclusively for employees in this area, regardless of their geographic location or their position within the company. The objective of this project is to increase technical skills and contribute to the growth of the business, to guide technical careers, to create an attractive value proposal to retain the best professionals and attract candidates and promote greater synergy between businesses, encouraging mobility and new opportunities.

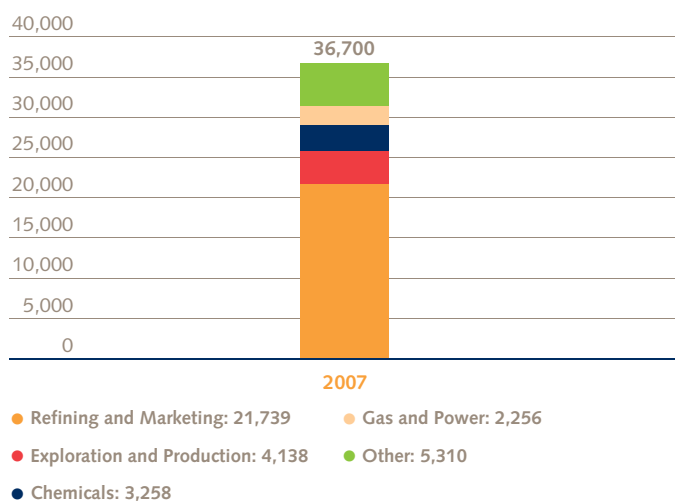


During the year generic training was provided (management and languages) and technical training according to staff requirements, each unit and business. In 2007, over 25,000 employees participated in training programmes. Of all internal staff, around 72% of employees in Spain received training, over 60% in Argentina and approximately 42% in the rest of the world. Globally, around 2% of time was dedicated to training activities.

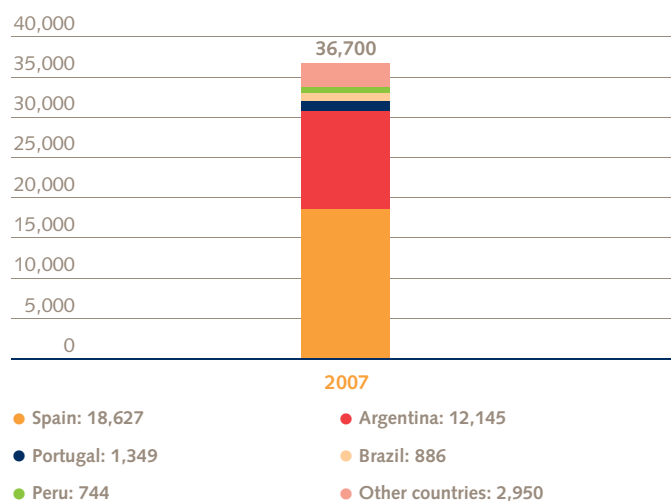
Labour relations

In September 2006, upon signing the 4th Framework Agreement between Repsol YPF and the trade unions federations, UGT and CC.OO, the Repsol YPF group commenced negotiations for the collective agreements between their different companies in Spain. Throughout 2007, the new agreements were signed and registered in the Official State Gazette (BOE) of Repsol Comercial de Productos Petrolíferos, Repsol Química, Repsol Petróleo, Repsol YPF, Repsol Butano, Repsol Exploración, Repsol Lubricantes y Especialidades.

2007 Employees by business area



Employees by geographical areas



The Spanish Organic Law 3/2007, of 22 March on effective equality between men and women was passed in 2007. It is noteworthy to mention that in 2006 the Equality Plan, enabled by law, had already been agreed with the trade union representatives and included in the collective agreement framework.

In Argentina the three agreements have been maintained, which regulate the labour conditions of approximately 3,900 employees working in refineries, reservoirs, service stations and liquefied gas. Most notable is the approval of the new collective labour agreement that applies to YPF Gas. Employees within the agreement are represented by the Oil and Hydrocarbon United Trade Union Federation (SUPeH). Throughout 2007, a relationship of permanent dialogue and interaction was maintained with this federation, reaching various additional agreements.

Employment

At the end of December 2007, the total number of Repsol YPF employees was 36,700, located throughout more than 30 countries, mainly in Spain and Argentina, representing 83.8% of the staff. From an employment point of view, there is also a significant presence in countries such as Portugal, Brazil, Peru, Ecuador, Trinidad and Tobago, Chile, Bolivia and others.

The total number of Repsol YPF employees reaches 36,700 that are located throughout more than 30 countries

Permanent employees constitute 88.7% of total staff, whilst the ratio of women to men remains at 25% total staff.

By business areas, 59.2% of employees were concentrated in the Refining & Marketing area, 11.3% in Exploration and Production, 8.9% in Chemicals and 6.1% in Gas & Electricity.

With regard to professional groups, Repsol YPF's staff is distributed in the following way: 0.9% executive personnel, 6.6% technical managers, 40.6% technicians, 6.3% administration and 45.6% operators.

During 2007 the rapid rate of hiring exploration and production professionals, included in the 2005 Impact Plan of this business, which plans to recruit more than 1,800 professionals in 5 years, continued, 461 people were hired, 269 in Argentina and 192 in Spain. In the first 3 years of effectiveness of this plan, more than 1,200 employees of 25 different nationalities have been hired by Exploration and Production.

Repsol YPF employees filled 62% of the company's vacancies, encouraging professional development

One of the principles that guided the activities of the Selection Service Unit was internal mobility. 62% of created vacancies were filled by the company's own employees, encouraging professional development and the acquisition of knowledge of different businesses.

Over the last two years, the expatriates group has increased near to 50%, from 585 in 2005 to 870 in 2007. The most significant management changes were made in Upstream, with an increase of 64%.

As for destination ranking, the most significant exchange route still remains between Spain and Argentina, whilst Libya remains in third place, the United States and Trinidad & Tobago share fourth place.

2007 saw the continued strengthening of relations with universities and benchmark training centres, and internet presence was increased by taking part in virtual employment forums and publishing job offers on the corporate website, as well as on other employment websites.

Knowledge management

The importance of knowledge and information is increasing in modern society representing an opportunity for the company to gain a competitive advantage in its sector. Companies compete for knowledge, since products and services are constantly becoming more complex in an ever more competitive environment, with ever more demanding consumers. Human Capital is where an organisation can base its differentiating factor in order to achieve efficiency and innovation.

As part of its continuous improvement programs, in 2007 Repsol YPF began to develop, through a pilot scheme, the tools for searching and locating internal knowledge. This allowed company employees, independent of where they carry out their activities, to have access to all available knowledge, at the required moment and in a favourable setting for the constant identification and transfer of good practice in all key areas and processes.

Furthermore, as a way of avoiding knowledge loss caused by employee rotations and retirements, new methodologies have been implemented to capture and transfer internal knowledge. Among these techniques, those related to narratives are notable, tested in Madrid and Buenos Aires with satisfactory results.

Since their initiation in 2001, the Repsol YPF Practice Communities and Stakeholders are highly mature products, in what refers to knowledge management, they have grown consistently, with 48 Practice Communities and 370 stakeholders in 2007. The number of repsolnet users is also worth noting, having increased from 23,500 in 2005 to 29,000 in 2007.

Innovation and Technology

Repsol YPF considers its investment and activities in Research and Development (R&D) as an essential tool that enables competitive technology to obtain the best products that, manufactured using efficient processes and with minimum environmental impact, fulfil market needs and customer expectations. In other words, increasing company value for its shareholders and performing as a socially responsible company.

Resources are applied in R&D programmes to identify and incorporate the best commercially available technology and at the same time develop the company's own technology, enabling it to achieve a stronger competitive position. Furthermore, technological research studies are carried out to gain knowledge of emerging technologies that can change the outlook of the the contracts has increased very significantly in recent years, exceeding €9 million in 2007. The areas of cooperation covered initial viability studies for the start of new projects, the acquisition of new catalysts or realisation of stages of projects according to specific knowledge and/or facilities available at these centres. Similarly, involvement in consortiums with other companies for pre-competitive development of new technologies increased.



Furthermore, Repsol YPF participates in R&D programmes promoted by different governments (regional, national and European) and during 2007 it was involved in nineteen different projects promoted by the Spanish Government and seven European Union projects.

Of the projects carried out within the European Union framework, the Ecodiesel project is notable, which earned a positive evaluation from the European Commission, enabling €5 million of funding to be obtained, the terms of which are currently being negotiated. This project, carried out in collaboration with European companies, is lead by Repsol YPF and is considered a benchmark for innovation in biofuel conversion and best use of raw materials.

In 2007, 77 million euros was invested in research and development projects

Repsol YPF leads the European Unions Ecodiesel project, a benchmark for innovation in biofuel conversion

The Ecodiesel project, being run in Jabares de los Oteros (León), will be dedicated to manufacturing first-generation biodiesel with the aim of achieving reduced CO₂ emissions, similar to those of future second-generation biofuels. To do this, amongst other specific characteristics, the plant will generate energy using biomass produced from agricultural waste and from the first refining of by-products obtained from seed production.

€77 million invested in R&D

In 2007, Repsol YPF assigned €70 million to R&D in its Technology Centres, to which a further €7 million was added for projects carried out in business units. In order to undertake its R&D programmes and activities, Repsol YPF has two Technology Centres, one in Spain (Móstoles) and the other in Argentina (La Plata), which employ more than 450 people.

The R&D projects and programmes are applied to the entire value chain of the business, from the exploration of new crude oil or gas deposits, extraction and preparation for transport, transformation and manufacture of products in industrial complexes, to distribution to the end user. They are all focused on the continuous improvement of products and processes. Of the various business lines, the following important actions can be highlighted:

- *Exploration and Production.* Projects aimed at improving the oil and gas recovery factor, both for heavy crude oils, where technological improvements are being developed for best use of the heaviest fractions, and for conventional reservoirs, where technological field pilots have been carried out to increase the recovery of crude oil through alternated water and gas injection cycles (WAG, water alternate gas). Likewise, as part of a consortium with other companies in the sector, new systems are being developed to improve the use of gas deposits by compressing the gas at the bottom of the well.

In liquefied natural gas, non-conventional liquefaction projects are being carried out in order to access new gas reserves, as well as programmes aimed at increasing the energy efficiency of regasification with an impact on the reduction of CO₂ emissions.

Another of our lines of work is aimed at minimising the environmental impact of operations. In that respect, in 2007, a new, very low cost, rapid technology was developed and approved in the field in Argentina, by applying isotopes to detect the presence of hydrocarbons in the subsoil and groundwater. Its use avoids excavations, minimising environmental impact.

- *Refining, Marketing and LPG.* Specialist technological support to refineries enables better quality fuels and gas oils to be obtained, pre-empting the requirements of international regulations. New projects are also underway, such as plant-based bio-fuels or improved-performance lubricants and asphalts, adapted to comply with new environmental regulations. Hence, the first lubricants based on re-refined used oils for different performances were formulated and a new range of polymer-modified bitumens were put on the market, exclusively and specially adapted for treating cracks on roads and used for surface drainage.

Kaleidoscope Project: one of the most innovative projects in the world

Repsol YPF has started up an ambitious initiative to develop new seismic processing technologies: Kaleidoscope Project. Due to its characteristics, the Kaleidoscope Project has been widely recognised within the industry. The most recent recognition was from the IEEE, (Institute of Electrical and Electronics Engineers) in the United States, the largest professional association in the world and leader in monitoring new technologies. They selected this project as one of the five most innovative projects of 2008.

This joint project developed with 3DGeo, a leading US company in the development of new seismic processing technologies, and the BSC-CNS (Barcelona Supercomputing Centre-Centro Nacional de Supercomputación), represents significant progress in hydrocarbon exploration and exploitation, as for this it uses one of the most powerful supercomputers in the world, the MareNostrum, operated by the BSC.

The Kaleidoscope Project will permit Repsol YPF to promote the advantages of its relations with Stanford University, through the Stanford Exploration Project (SEP), the world's leading research group in the development of new algorithms for improving seismic image processing software, sponsored by Repsol YPF.

The Kaleidoscope Project develops advanced seismic processing techniques that increase the options for analysing and interpreting seismic images, the first step in hydrocarbon exploration. This technology will place Repsol YPF in an advantageous position among its competitors, as it increases the likelihood of finding hydrocarbon reserves in deep waters, renowned for their geological complexity, and until now invisible when using traditional techniques. It significantly reduces the associated exploration risks and costs.

Repsol YPF studies the use of this new technology in deep waters in the US Gulf of Mexico, where it has significant assets. The US authorities estimate that the Gulf of Mexico contains the equivalent of around 56,000 million barrels of oil equivalent.



Picture by courtesy of BSC-CNS



The chain value analysis is applied to all R&D projects and programs

Noteworthy in LPG are the new applications within the transport framework and in acclimatisation that provide sustainable solutions and a reduction in emissions. In this way, the specific mix for heavy vehicles reduces pollutant emissions and perceptible levels of noise, smell and smoke.

- *Petrochemical industry.* A new polyolefin pilot plant was commissioned at the Tarragona industrial complex, designed to scale-up polyethylene and polypropylene processes and products, which will permit reduction and ensure commercial and industrial implementation of new products.

The resources assigned to developing our own propylene oxide/styrene monomer (PO/SM) technology have consolidated operational improvements following the increase in capacity of the PO/SM plant in Tarragona. Additionally, a process for producing polyols with a DMC catalyst was developed, which successfully completed industrial testing at the Puertollano Industrial Complex and will double the capacity of the current units.

In this field, Repsol YPF also leads the CENIT MEDIODIA Project, in which a consortium of 12 companies and over 20 organisations will work together researching plasticulture in order to develop a new type of highly advanced automated greenhouse. The project has a budget in the region of \$28 million for the 2007-2010 period.

Furthermore, as part of Repsol YPF's firm backing for innovation and development, it initiated a new CENIT project in the asphalts area, with 50% funding from the CDTI (Centre for Industrial Technological Development), who together with PiIBE (Biodiesel) launched in 2006, recognise the value of Repsol YPF technology and its capacity to lead this type of initiative.

At the Repsol YPF Technology Centre, competition fuels are being developed and manufactured, for use in important competitions, supplying teams such as Honda, Aprilia, Ducati and Mitsubishi. In 2007, for the third year running, the Repsol competition fuel CTR-40 was selected by HONDA HRC as the fuel with the best performance compared to several others manufactured by our rivals. Technological knowledge acquired in these key areas will later serve to improve the company's products that reach the end user.

Safety and Environment

Caring for the environment and safety are key factors for Repsol YPF in the management of its activities. This principle is covered in the company's Strategic Vision, within the commitment to "contribute to the sustainable development and improvement of the local environment, and to respect human rights, the environment and safety".

One of Repsol YPF's four core ethics is "We demand high levels of safety in processes, installations and services, placing an emphasis on the protection of employees, contractors, customers and the immediate surroundings, and we convey this principle to the entire organisation".

In 2006, Repsol YPF approved the new Health, Safety and Environmental Protection Policy in order to reinforce its commitment to these areas, considered essential values in all its activities. During 2007, the company focused its efforts on deploying and promoting the principles of the new policy among its employees, contractors and suppliers. This Policy is implemented in all company activities via the Environmental and Safety Management System, which is based on the Environment and Safety Manual and an extensive set of norms, procedures and technical guidelines, which are being continuously updated to adapt to the best industry practices.

The Repsol YPF 2007 Corporate Responsibility Report lists the most noteworthy actions undertaken during the year for the safety, environment protection and conservation, as well as the development of the most significant indicators.

In 2007, it is worth highlighting that Repsol YPF was again included in the most prestigious sustainability ratings, that each year evaluates the company's management of safety and environment. Repsol YPF has been declared one of the best in its sector ("Best in Class") in the Climate Leadership Index due to its strategy and transparency policy in the face of climate change, and achieved top marks for its management of climate change in the Dow Jones Sustainability Index.



According to renowned international indexes, Repsol YPF is included as one of the best companies in the sector for its management and transparency in that related to the climatic change

Safety

Repsol YPF's objective is to have zero accidents in the course of its operations. To achieve this, each year both management improvement actions and investments for maintaining facilities in accordance with sector standards are established, and the management system for improving safety is continuously assessed.

The accident rate was again reduced in 2007. The frequency rate of lost time accidents fell by 24% compared to the previous year, thus meeting the established annual target and the strategic objective highlighted by the company for 2009, two years in advance.

The total accident frequency rate resulting in lost working time (own personnel and contract personnel) fell by 8% compared to 2006, also meeting the established annual objective.

In 2007, the strategic objective to reduce the lost-time accident rate by 2009, was met two years in advance

However, despite the improvement actions undertaken and the progress made, we regret to report a total of ten fatal accidents, with twelve deaths, all personnel employed by contractors. Five of these deaths occurred in road accidents.

Recognition for reduction of accident rate

Cartagena: 365 days without lost time accidents

The Cartagena refinery completed 365 days without suffering any lost time accidents for both its own personnel and contract personnel.

COASHIQ, the Spanish Autonomous Commission for Occupational Health and Safety in the Chemicals and Related Industries, awarded the refinery for having registered no lost time accidents in a year, and for achieving in 2006 the highest reduction in the Accident Frequency Rate in the last five years.

Tarragona: 1.5 million hours worked without lost time accidents

In the last trimester of 2007, the American company Fluor acknowledged Repsol YPF's Engineering and Industrial Complexes Management at Tarragona for 1.5 million hours worked without lost time accidents, accumulated while carrying out on-going investment projects in these Complexes.

Fluor is an engineering company that has worked with Repsol YPF for some time on prevention and safety, as well as other areas of collaboration.



Repsol YPF has undertaken a Carbon Management Plan to contribute to reducing greenhouse gas emissions and combat climate change

Environment

In compliance with Repsol YPF's strategic lines, environmental protection and conservation are key elements in the company's activity.

As a result, Repsol YPF dedicates significant resources to be able to reduce the main impact of its activities on the environment. In 2007, significant environmental investments were made, most noteworthy, as in previous years, were those in the refining area to meet the environmental quality of oil products standards required by new Spanish and Argentinean regulations. Significant investments were also made in measures to control, reduce and/or prevent pollutant emissions. The most noteworthy include those to protect air quality, water environments, soil and groundwater.

Note 39 of the Consolidated Report provides detailed information in relation to assets, expenses and investments, contingencies, provisions and future actions of an environmental nature.

Climate Change

At a regulatory level, during 2007 and the first few months of 2008, the European Commission approved the National Allocation Plans 2008-2012 for Spain and Portugal, which were later approved by Spanish Royal Decree 1030/2007 and Portuguese Decree 2836/2008.



The European Commission also approved Decision 589/2007, which replaces the previous Decision 156/2004, which defines the methodology for the monitoring and notification of greenhouse gas emissions. During the third quarter of the year, Repsol YPF assessed and implemented the relevant modifications, pre-empting the new regulations and sent said modifications to the competent authority for approval.

Furthermore, since publication of the Position of Repsol YPF on Climate Change in 2002, the company has undertaken a Carbon Management Plan that has been spread intensively to all Business Units responsible for greenhouse gas emissions (GGE). One of the key areas of this plan is the development of an intense internal search programme for emission reduction opportunities, CORE (Catalogue of Emission Reduction Opportunities). The aim being to highlight all the energy efficiency actions that have been continuously implemented in the company's installations over the last years and in this way be able to achieve the strategic reduction objective of 1 million tonnes of CO₂ during the 2005-2012 period.

Within the framework of CORE, Repsol YPF has also given its backing to identifying and developing internal Clean Development Mechanism (CDM) projects. In this respect, the United Nation's CDM Executive Board approved, in July, the first methodology presented by Repsol YPF for the recovery of refinery flue gases, based on a project carried out at the La Plata Industrial Complex (Argentina). The approval of this methodology, AM0055 "Baseline and Monitoring Methodology for the recovery and utilization of waste gas in refinery facilities", is a great opportunity for other companies in the sector, who may use it in projects with similar characteristics.

Another of the lines of action of the Carbon Plan is investment in International Carbon Funds. These funds go to CDM projects in developing countries, investing in energy efficiency, renewable energy, waste management and fuel change projects amongst others, in line with the company's policy to promote global efforts in the fight against climate change. Using this investment, Repsol YPF took part in several projects during 2007; among the most noteworthy are a wind energy project in the province of Oaxaca (Mexico) and another for capturing methane from landfills in north Egypt.

Both projects provided benefits in terms of technology transfer and sustainable development due to their contribution to employment and reducing the environmental impact in their respective communities.

Finally and in accordance with the established strategic lines of the company, during 2007 Repsol YPF put underway the process of verifying the inventory and actions aimed at reducing the company's greenhouse gas emissions, in accordance with ISO Standard 14064, in refining and petrochemical plants in Spain and Portugal.

Biodiversity

Repsol YPF respects biodiversity in the planning and development of its projects and operations, preventing and minimising any possible negative impact on ecosystems. During 2007, activities continued to be carried out to advance the management of biodiversity and use the principles included in the company's position approved in 2005.

One of the most noteworthy events was the signing of an agreement with UNEP-WCMC (United Nations Environment Programme-World Conservation Monitoring Centre) to take part in the PROTEUS project and in this way access the WDPA (World Data Base on Protected Areas), the most comprehensive global data base on protected land and sea areas.



United Nations have accepted Repsol YPF's first methodology for a flare gas recovery system

Furthermore, Repsol YPF is developing a group of norms, which set out the performance criteria and directives with regard to biodiversity for all the company's operations, most noteworthy being the commitment to implement Biodiversity Action Plans in projects carried out in sensitive areas.



Project Proteus: managing biodiversity

Project Proteus was created in 2002 under the UNEP-WCMC (United Nations Environment Programme-World Conservation Monitoring Centre) initiative, with the purpose of designing an up-to-date and easy-to-use system for storing, managing and reporting all of the world's protected areas.

In October 2003, the private sector was integrated into the project, developing into an association whose purpose is to promote economic growth that takes into account the protection and conservation of the planet's biodiversity, incorporating it into all management decisions, so that it ensures sustainable

growth and social development. The association promotes the international objectives established by the United Nations for reducing the rate of loss of biodiversity by 2010.

Proteus represents a unique platform between the large extraction industries and UNEP-WCMC, where the private sector can support and collaborate with international organisations, government institutions and NGOs in biodiversity conservation and protection activities.



Taking part in this project enables Repsol YPF to access the world's most comprehensive database of its protected areas, the WDPA, World Data Base on Protected Areas and represents an important step forward in improving prevention and minimising impact, forming alliances with companies in the sector and prestigious organisations in biodiversity.

Quality: excellence in management

At Repsol YPF, Quality means the appropriate management of all the company's resources in order to achieve the highest levels of quality in terms of value creation for all their shareholders through the length of time.

In order to progress along the road to excellence, Repsol YPF adopted the models of the EFQM (European Foundation for Quality Management) and FUNDIBEQ (Ibero-American Foundation of Quality Management) in 2001, applying them through a systematic and periodic self-assessment programme, which enables the company's Units to define and implement its improvement plans.

Repsol YPF is a member of the international foundations, EFQM and FUNDIBEQ and actively participates in the main associations for quality in the geographic regions where it operates.

Updating the Strategic Quality Plan

Each year, the Quality Committee comprised of Top Level Management from the Strategic Business Areas and Corporate Directors, approves the company's Strategic Quality Plan, in which the objectives and scheduled actions required to develop the quality policy are established. The current Plan provides a series of strategic lines that recognise and promote customer approach as one of Repsol YPF's core professional values, through the knowledge and satisfaction of their requirements with speed and flexibility and by anticipating their expectations.

In 2007 the development of key programmes for the Strategic Quality Plan continued. In the field of consolidation and improvement of the self-evaluation process, the different company units prepare and implement their improvement plans and programmes systematically based on a periodic self-evaluation programme.



Since the launch of this programme in 2001, more than 100 self-evaluations have been carried out meaning that by December 2007, 100% of the organisation (measured in terms of staff) had performed, at least, its first self-evaluation, more than 70% had performed the second, and 25% had performed three or more self-evaluations.

The experience and knowledge accumulated since 2001 in this field led to an in-depth review of the self-evaluation methodology being carried out in 2007, with the purpose of improving its alignment with the business strategy, ensuring the integration of all the improvement initiatives, monitoring plans of action, and guaranteeing that the quality of function acts as an element of exchange. All this will be supported by the creation of ambitious objectives, linked to creating value and having a system of indicators that enable monitoring to be carried and guaranteeing the processes of continuous improvement and increased efficiency.

Repsol YPF worked on establishing a process-focused management system throughout the entire company. The formalisation of processes and the identification of indicators and performance measures all support decision making and help identify and implement improvements to guarantee that objectives are fulfilled. 89% of the organisation (measured in terms of staff) has formalised processes, and defined indicators and related performance measures, which enable improvements to be identified.

Repsol YPF promotes and supports the use of benchmarking as a basis for establishing improvement objectives in line with each environment and to detect and share knowledge on best practices in the organisation. In 2007, for the first time, internal benchmarking was performed in the company, which analysed the results of the Climate Survey taken by the various units. In this exercise, each unit has been able to set challenges to advance their improvement in terms of their relative position within the company, and has enabled general areas of improvement to be identified that support the Global Action Plan.

Innovation and the use of quality training

Repsol YPF promotes innovation as a fundamental management value and this is reflected in its Quality Policy. In 2007, an innovation framework was approved, promoted by the Management Excellence Club (Club Excelencia en la Gestión) and the COTEC Foundation, as a reference for driving forward the organisation's innovative capacity.

During 2007, the first "Quality as a Management Tool" business courses were given. This course aims to provide its attendees with general knowledge of quality principles, models of excellence and self-evaluation, process-focused management, as well as knowledge of quality systems certifications, basic improvement tools and their implementation. Based on the experiences of 2007, the Quality Committee decided to extend this training to include all managers and unit managers in the company and design a specific module for general management.

Repsol YPF has more than 60 quality certifications that endorse their management standards

Under the slogan "Towards excellence", in June 2007 the first Repsol YPF Quality Conferences were held with the aim of announcing the achievements of the company units in this area and facilitating the internal exchange of experiences, in this way promoting the transfer of knowledge. The conferences were attended by around 150 company employees from the different countries where it operates. Other companies and organisations were also present, enabling current trends and challenges on this issue to be shared.

Certifications

The implementation of quality management systems, based on international standards, was carried out with the objective of progressing along the path to excellence, developing a culture and commitment to quality, and complying with industry requirements.

In December 2007, the LPG storage terminal in Ventanilla (Peru) attained the ISO 9001:2000 certification of its quality management system. This is the first LPG certification achieved in this country.

Repsol YPF already has more than 60 quality certifications based on standards such as ISO 9001:2000, TS 16949 or ISO 17025.



Communications and Social Commitment

Social commitment

Repsol YPF has adopted as a principle of company action, the realization of an efficient, modern, profitable and effective management system that is embedded in the principles of sustainable development and in the commitment to well-being, development and prosperity of the societies where it is present.

This management model, which stems from the Vision, Values and Commitments of the company, has received recognition on numerous occasions. In September 2007, the Dow Jones, including Repsol YPF in its exclusive Dow Jones Sustainability Indexes, again recognised the company's approach to corporate responsibility, and sustainable development. Inclusion in this index for a further year endorses Repsol YPF's commitment towards long-term value creation. In the Dow Jones analysis, among other things, Repsol YPF stood out for its environmental strategy and its strong social commitment, receiving the top score for transparency, climate change strategy, development of human capital and social impact on communities.

Already in 2008, Repsol YPF has received the classification of "Gold Class" company in the Oil&Gas sector, according to the Sustainability Yearbook 2008 compiled by PricewaterhouseCoopers and Sustainable Asset Management (SAM).

Repsol wishes to contribute to societies in which they are present and facilitate them accessible energy sources, which are sustainable and secure. For this reason, it takes as a starting point in its social commitment to generate and distribute wealth as a result of the efficient running of its business as an energy company. This depends considerably on how the company is accepted the and the level of trust within the societies where it carries out its activities. For this reason, issues such as environmental care, good relations with the



host communities, security of persons, products and installations, environmental commitment and respect for human rights are defining factors of the company's management model.

Corporate Responsibility Directive Plan: more than 30 actions in 2007

Repsol YPF's social commitment aims to consolidate the company's position in all the countries where it is present. Establishing strong, long-term relationships with the main stakeholders and undertaking actions that support its commitment to society which, in turn, promote mutual value creation.

In 2007, Repsol YPF prepared and approved its 2007-2009 Corporate Responsibility Directive Plan, which includes nine programmes responding to six strategic lines of action regarding corporate responsibility, identified by the company. In addition, the Plan includes three transversal programmes related to training, performance monitoring and communication.

Repsol YPF invested a total of 32.3 million euros in more than 800 social and cultural programs

The Repsol YPF Master Plan plans to execute 65 actions by the end of the 2009 financial year. In 2007 more than 30 planned actions were carried out, which means in terms of delivery, that performance during the first year of the plan was very high.

The Corporate Responsibility Directive Plan includes a specific programme entitled the Community Commitment Programme, to analyse, organise and focus the company's social commitment actions, bringing them in line with business objectives and the real needs of the communities where the actions are being carried out.

One of the objectives was to develop a functional model to enable company activities in the community to be carried out in a coordinated and efficient manner.

In April 2007, with the purpose of promoting this coordination, the 1st Community Relations Workshop was held, aimed at all company employees that work on this subject worldwide. Over 50 representatives from 15 countries took part in the workshop from the company's different business areas and units, showing that managing community relations is a multi-discipline issue at Repsol YPF. Also, external stakeholders that brought their points of view to the table attended the workshop.

The Community Commitment Programme was also created with the purpose of designing a system that enables the company's social risk in the different regions where it is present to be assessed, so that later this can be incorporated into its global risk management system. In 2007, the first two project phases were initiated, which will be completed in 2008.

In addition, a process of defining a new community relations policy began, this policy will establish standards for the entire company, and will be formally approved in 2008 following a consultation process with the main stakeholders. Similarly, to complement this, in 2008, Repsol YPF aims to draw up and approve its indigenous community relations policy.

Throughout 2007, other actions were also undertaken in order to meet another of the objectives included in the Community Commitment Plan: to have a corporate action plan, adapted to each country. The implementation of these plans will be supported by the new global reporting platform for community development activities. Furthermore, the company is a member of LBG Spain, which in 2007 began adapting a system to measure social investment and the impact of social contribution programmes, in accordance with the methodology developed by the London Benchmarking Group (LBG).



More than 800 social and cultural commitment programmes

The lines of action followed by Repsol YPF regarding social commitment respond to the needs identified in the communities and are based on a longevity criterion. Normally, the company's business unit managers decide alongside the communities, or their representatives, the priority projects that will help meet their identified needs.

In 2007, Repsol YPF and its foundations invested a total of €32 million in society. Over the year 800 social and cultural action programmes were developed.

Company activities can be grouped into the following action lines: Education and Training; Community Development; Health; Social Integration; Environment; Humanitarian Aid, and Art and Culture.

Education and Training

A large part of Repsol YPF's social investment is aimed at projects related to education, the best tool for sustainable development. These programmes are mainly aimed at primary

and secondary school children and to young people through training programmes within the communities, as well as graduates and post-graduates.

*Ibero-American Virtual School.
Province of Orellana (Ecuador)*

The Repsol YPF Foundation Ecuador, aware of the importance of access to technological resources for promoting education and the development of the Amazonian Region, has launched a joint initiative with the Ibero-American Virtual Unity Foundation (UVIA). This initiative was given the name "Ibero-American Virtual School". The support is based on awarding 115 grants for young people and adults in the Orellana province in Ecuador. It is about offering young people and/or adults from the city of Coca and the district of Pompeya, who have not been able to study in the mainstream system, the chance of studying through internet. These grants are awarded to people in vulnerable situations and at educational risk. In this way, it seeks to help to reduce the amount of young people abandoning school as well as minimise the digital gap.

*Construction and improvement off the Work Training
Centre in Pachacútec (Peru)*

Since 2003, Repsol YPF has collaborated with the Fundación Española Ayúdales a Vivir (Spanish Help Them Live Foundation) on the project for constructing and improving the Universidad Laboral de Pachacútec (Pachacútec Labour University) in Peru. Also involved in this initiative are the Fundación Peruana Desarrollo Integral de Nuevo Pachacútec (Peruvian Foundation for the Integral Development of New Pachacútec), and the Obispado del Callao (Bisophric of Callao). Its main objective being to provide the youth of Ventanilla with adequate professional training permitting them access to occupational and/or technical opportunities, jobs in companies present in the area, or to generate their own opportunities by creating micro-companies or management co-operatives. Since it began, work carried out includes, construction, installation of equipment, buying of equipment, selection and hiring of teaching staff.





This project has an average of 250 students in training and education programmes taking on degree programs such as Basic Computer Operation, Shop Retail Sales, Basic Cosmetology, Bakery, Hotel Trade, Electrics, Business Administration, People and Gastronomy.

In 2007, two additional lecture theatres were built to accommodate 70 more pupils taking technical degrees in Micro-Computer Administration, which are given at the Pachacútec centre.

Community development

The projects in this field have the main purpose of supporting sustainable development at an economic, social and environmental level. These projects meet longevity criteria, so that an evaluation of their effective use in time can be carried out using performance indicators.

Credit for female micro-business entrepreneurs in Orellana (Ecuador)

Repsol YPF, through the Repsol YPF Foundation Ecuador has created a programme for awarding microcredits to improve the standard of living in the most deprived provinces in Ecuador. This novel programme has trained 600 female micro-entrepreneurs from the province of Orellana in business management techniques and has granted the relevant loans for income-generating activities. As an example, they have been trained to start up micro-businesses selling prepared food, food supplies, clothes, cosmetics, and perfumes and to set-up small businesses in tailoring, beauty, and rearing and selling chickens. Most of these women have increased or even doubled their incomes, benefiting their families and the community.

Health

Repsol YPF collaborates with projects and programmes that help to improve the quality of life and health conditions in the communities where the company is active.

Fundación Medicina Solidaria (Medicine Solidarity Foundation) (Bolivia)

In Bolivia 5 projects have been set up related to cardiology, diabetes, ophthalmology and endemic illnesses (Chagas disease).

Repsol YPF is collaborating with the Medicine Solidarity Foundation on the “Project on the Integration of Teaching and Technology to Fight Cardiovascular Diseases in Bolivia” project. Its purpose is to provide Bolivia’s cardiologists with the materials necessary to treat and prevent cardiovascular illnesses. Additionally, 30 health centres have been supplied with equipment to carry out tests, enabling a fast and accurate diagnosis.

Con tu apoyo vida, sin tu apoyo SIDA (With your support life, without your support AIDS) (Ecuador)

Since 2005, Repsol YPF has supported the project “Without your support AIDS, with your support LIFE” presented by the San Lorenzo parish clinic, giving rise to the creation of the HIV-AIDS Support and Advice Centre in Vinces, Province of Los Ríos.



The Support and Advice Centre has become a regional and provincial benchmark providing information and support on HIV-AIDS. This project involves implementing strategies to prevent the transmission of the HIV virus from mother to child, raising awareness and community involvement in the actions developed and at the same time trying to improve the quality of life of carriers and sufferers of this disease.

Since September 2005, it has treated over 1,500 patients and has carried out more than 200 HIV tests. Approximately 300 women per month attend the preventive programmes. It also works with over 8,000 young people at 92 schools and 15 colleges.

Social integration

In this area, projects include social integration programmes aimed at groups that are deprived or at risk of exclusion, as well as other programmes to improve the well-being of individuals and groups in society.

Cycling adapted for people with disabilities (Spain)

Since 2002, Repsol YPF together with the “Fundación También” (Also Foundation) has been developing the project “Adapted Cycling Programme”, which aims to provide people with some form of physical, psychological and/or sensory disabilities access to sporting activities such as cycling with family and friends. It is an instrument for social integration and a tool that provides a dose of fun and important physical and psychological benefits to people with disabilities.

Environment

In this area, projects are focused on increasing awareness, caring for, and protecting the environment, as well as promoting the Protecting of Biodiversity.

Investment in social and cultural programmes

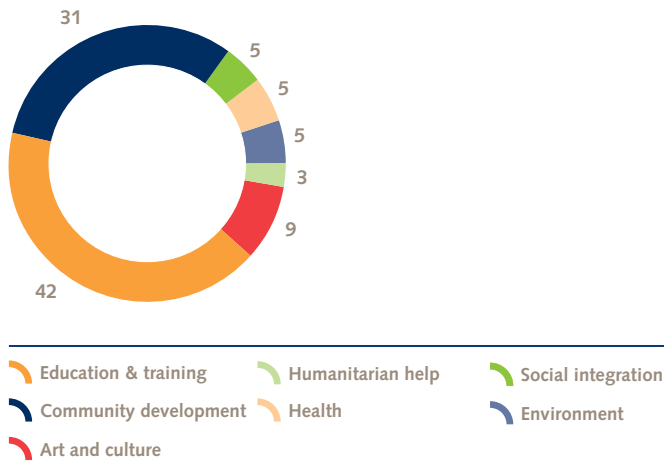
	<i>Thousand euros</i>			
	2004	2005	2006	2007
Spain (1)	9,714	10,856	12,806	13,308
Argentina, Brazil, Bolivia (ABB)	2,847	7,931	8,278	14,137
Rest of Latin America	2,904	3,590	3,569	3,587
Rest of world	868	295	801	1,270
Total	16,333	22,671	25,455	32,302
% of income before tax (2)	0.40%	0.41%	0.47%	0.58%

(1) ISE involvement increased to 77.6 million in 2007.

(2) In 2004 and 2005 based on income before tax and participated companies.

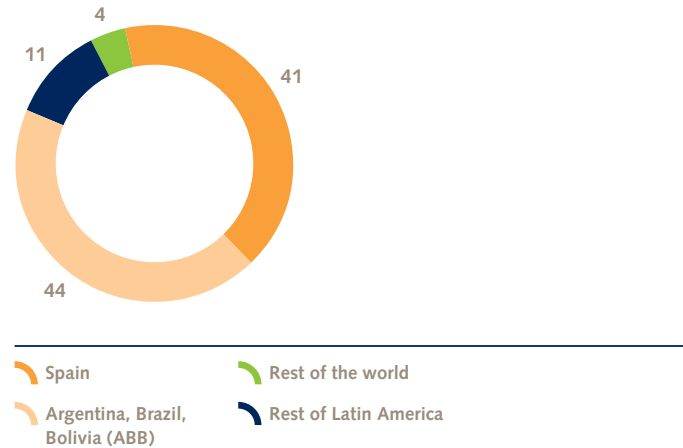
2007 Investments in social and cultural programmes

Percent



2007 Investments in social and cultural programmes by geographical regions

Percent



Wetlands of Ventanilla Conservation Programme (Peru)
 This programme, run in collaboration with the local council and NGO's in the region, seeks to promote and disseminate the importance of preserving wetlands. To do this, educational campaigns have been launched in coordination with environmental organisations and they plan to build two additional viewpoints to those built previously under Repsol YPF's sponsorship.

Environmental workshops (Bolivia)
 During 2007, environmental workshops were held in all the educational units within the direct sphere of influence of the company's operations in the Víbora, Sirari and Yapacaní fields. These workshops aim to educate and awaken interest among children and their parents in caring for and preserving the environment, as well as raising awareness among local farmers of the dangers caused by "chaqueo" (burning the undergrowth before sowing).

Humanitarian aid
 Repsol YPF, loyal to its commitment to society, collaborates to alleviate the damage caused in regions affected by natural disasters.

Aid for the Peruvian earthquake victims
 Through its Foundation, Repsol YPF made a significant donation to the construction and equipping of a new Maternal-Child Health Centre in the town of San Clemente, an area devastated within the province of Pisco.

Furthermore, Repsol YPF Peru sent out two aircraft carrying aid materials to the affected region, with almost 5 tonnes of food, more than 1,500 kg of medicine as well as water, warm clothing, etc. Fuel was also provided to supply the power generators in the Pisco Shelter and to operate the heavy machinery clearing the debris.

Committed to art and culture
 Repsol YPF supports the dissemination of culture by collaborating with organisations, exhibitions and initiatives in the fields of photography, music, painting and sculpture. It is also involved in the recovery and conservation of historical heritage in both Spain and Latin America.

Arte Down (Spain)
 Repsol YPF bought 15 works prepared by artists with different disabilities from the online gallery ArteDown for some of its new offices. The initiative came about as a result of the company's integration activities for people with different disabilities and as way of recognising their artistic talents. The paintings will also be exhibited in other Repsol YPF offices.

Cátedra de Oboe (Oboe Department) (Spain)
 In April 2007, an agreement was signed with the Albeñíz Foundation to collaborate in the academic work that the Foundation carries out through the Queen Sofia High School for Music (Madrid, Spain). In this way, Repsol YPF will be patron and give its name to the oboe department of the School. It currently has students from Hungary, Spain and Ukraine and the resident professor is Professor Hansjörg Schellenberger.



During 2007, the shareholders information office assisted near 67,000 telephone calls

The magazine, 'Extracción' aimed at company shareholders, enables them to learn first-hand about interesting information including results, news, interviews, etc.

Additionally, the corporate website (www.repsolypf.com) permits access to all the relevant company information, as well as specific content in the section entitled "Information for shareholders and investors". The website also has an email address (inversores@repsolypf.com) to send queries and request publications.

Communication

For Repsol YPF transparency in relations with different stakeholders is at the heart of its communication strategy. Nowadays society demands that information is accessible and Repsol YPF proactively pay attention in a fluid and speedy way by using a variety of tools.

Shareholders and investors

Shareholders and investors have numerous means at their disposal to study on the day-to-day activities of the company. Repsol YPF has a Shareholders Information Office (OIA) and an Investor Relations Management, through which it aims to care continuously for its shareholders, institutional investors and stock market analysts.

In order to deal with its shareholders, the OIA has a direct free phone line, 900100100. In 2007, the office dealt with 66,852 calls (253 calls per day), where the most common questions were related to share prices, the General Shareholders' Meeting and important company details affecting the share value.

The Investor Relations Direction maintains a fluid relationship with investment institutions and stock market analysts. Among the activities carried out by this direction in 2007, most noteworthy were the 11 global roadshows (meetings between international investment institutions and company executives) and more than 200 one-to-one interviews with investors and financial analysts. It also took part in various sector conferences, in both Europe and the United States, which were attended by numerous institutional investors.

Media

The company's media relations policy is based on the transparency, rigour and honesty of the information that it conveys. The company works on the speedy answering of information requests from journalists, maintaining smooth relationships and continuous contact with the media, all considered vital for conveying the evolution, activity and management of the company.

The Repsol YPF Web page is one of the most frequently visited websites of all the IBEX-35, reaching a maximum of 125 million pages seen by eight million visitors

Through the External Relations Management that forms part of the Group Managing Division of Communications and Chairman's Office, Repsol YPF maintains daily contact with the national and international media, providing all media professionals with the information they require. In addition, it works closely with the local media in regions where company Industrial Complexes are located.

Any activity or initiative carried out by Repsol YPF is communicated to all of the media via press releases. In 2007, Repsol YPF issued 97 press releases in Spain and Argentina, together with almost 60 local releases issued by the Industrial Complexes as well as those released in countries where the company operates.

In order to strengthen bonds with journalists, it organises specific information meetings with company communications managers, as well as press conferences. In 2007, most noteworthy were those held for the General Shareholders' Meeting and the presentation of the company's annual results.

The company website has a specific area, the Press Room, where company information can be accessed. In this area, the press releases issued by the company, publications, images, and all relevant Repsol YPF information are made available to the media and the general public. It also has highly useful tools such as a glossary.

Furthermore, there is a mailbox (prensa@repsolypf.com) open 24 hours a day that supports and improves relations with journalists. During 2007, this mailbox received more than 2,100 enquiries and requests for information.



An important communication tool is the repsolypf.com website, with 8 million visitors and 125 million pages visited. These figures endorse this tool as one of the most frequently visited websites of all the IBEX-35. It is continuously being improved and having new features added that make it more attractive, accessible, safer and faster. In addition to Spanish, it can be viewed in several other languages (English, Portuguese, Catalan, Galician and Basque). Among IBEX35 companies, the Repsol YPF webpage is one of the most visited, reaching its maximum figure in July 2007 of 125 million pages seen by eight million visitors.

The Repsol webpage has received numerous recognitions such as the AEMEC Award for transparency and good fulfilment of relations with stakeholders, and especially their relations with minority shareholders. According to the Swedish consultancy firm Hallvarsson&Hallvarsson, Repsol YPF is the best-rated energy company in Europe for transparency and best practice applied to the content of its corporate website and is second in the global classification of companies with best stock market capitalisation in Europe.

Other awards include the AECA Award to the Company with Best Financial Information on Internet. The association of Internet Users recognises Repsol YPF's efforts to use this means of communication to disseminate its company information, as well as the work done in communicating, using and developing information society and internet.

Generating brand value

Repsol YPF is convinced of the enormous importance and growing value of its brand name as a key element in differentiating its products and services, forming strong links with its customers and other people of interest, and in its ability to attract and retain human capital.

To become a frontrunner in the countries in which it operates, Repsol YPF manages the intangibles with the main objective of strengthening the brand value in each market, following strategies adapted to specific competitive situations in each country.

A brand unification process has been set in motion with the objective of capitalizing on Repsol's strong corporate image

Generating of brand value is based on various high-priority lines of action: the strategic management of company presence in each country, carrying out all the necessary adaptations for brand creation; constant commitment with all stakeholders; top level sports sponsorships that places the company at the forefront in the research and development of new strong and solid high-technology products, and with its own global media such as the repsolypf.com website.

Developing this strategy enables a sustained building of brand notoriety, guaranteeing awareness and communication of values in each country, and also essential, is decisively contributing to reinforce the Repsol brand as an international benchmark.

In the development of the company's brand policy, key to growth and adding value, the efforts in 2007 focused on defining a new position on communication, promoting an image of a company building good relations with people.

This position is based on empathy, defined as the ability to understand people's needs, feelings and problems and meet their expectations in an appropriate and timely manner. The objective is to convey rational and emotional benefits to people by passing on company values through the main focal point of the brand.

Sports sponsorship

The link between Repsol YPF and top-level competition again bore fruit on the most demanding sports platforms in motor racing. From the MotoGP World Championships to the World Trial Championships, via the GP2 -a precursor to Formula 1- or the Lisbon-Dakar Rally, Repsol's colours shone brightly at the top of the podium during 2007.

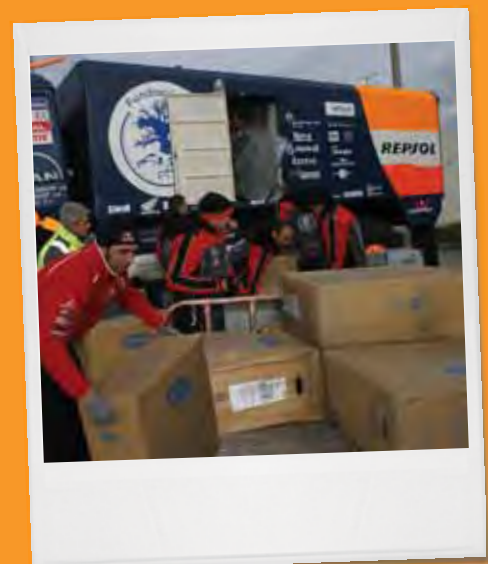
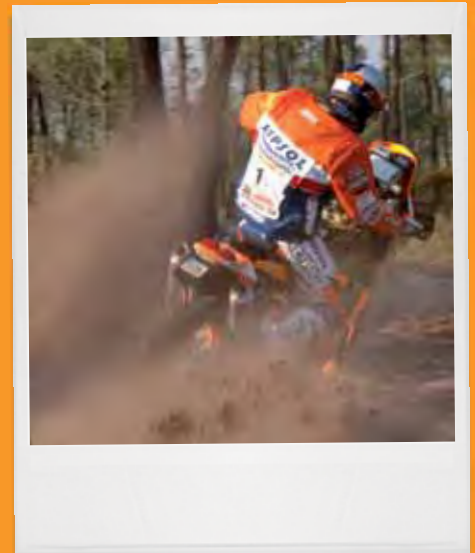
After a year of adapting to the MotoGP World Championship, that saw him win the best debutant award, Dani Pedrosa completed his second season in the most demanding modern day motorcycling championship with a brilliant second place. In addition to his sporting achievement, Dani Pedrosa represents core company values such as effort, seriousness and professionalism.

Off road, Stephane Peterhansel was again the best driver in the most difficult test in the world, the Lisbon-Dakar Rally, while Marc Coma, in the motorcycle category, won the Rally Raid World Championship for the third time in a row. In trial, a figure burst onto the scene who will define an era: Toni Bou. In his first year as a Repsol rider, Bou won by miles in both categories of the World Trial Championships: Outdoor and indoor.

Together with great and already established riders in the different motorsport disciplines that Repsol is involved, it also supports young and promising talent and tries to promote the careers of riders such as Javier Villa in GP2, the youngest on the grid who also had three victories during the championship, or Bradley Smith and Tito Rabat in the Moto GP World Championships, who already know what it is like to achieve a podium finish before reaching 18 years of age.

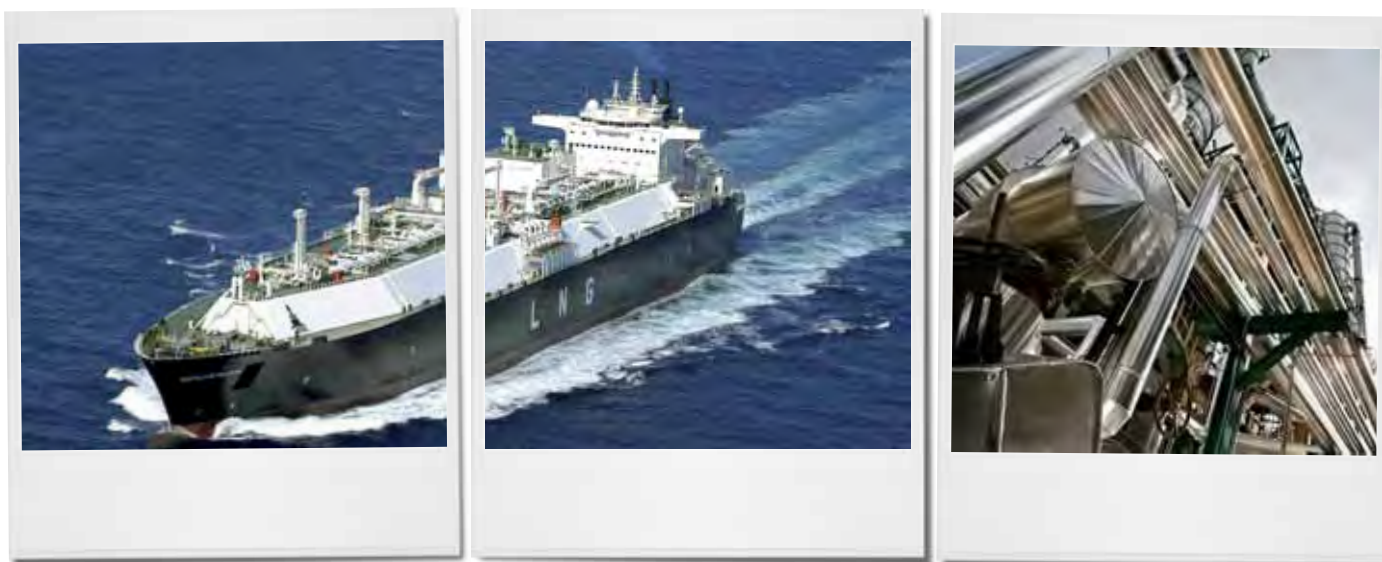
Repsol YPF's relationship with top-level competition is soon to reach its 40th year and has always been a commitment to excellence, due to the most advanced stages of technology such as the Moto GP World Championships, and to the hardest and most selective tests such as Dakar, where our fuels and lubricants have to overcome more and more demanding challenges every year. These challenges on such demanding stages have enabled Repsol to become a leader in the research and development of new fuels and lubricants, thus offering better quality products to its customers.

Repsol YPF sponsorship is also linked to society as well as sport, with actions including that of the Dakar Solidarity Foundation, of which Repsol YPF is the founding sponsor. In 2007, 14 tons of medical and health supplies were delivered to hospitals in Mauritania and Senegal, taking advantage of the Lisbon-Dakar Rally logistics. Hospitals and Health Centres in cities such as Chinguetti, Nema and Nouakchott received, among other things, incubators, serums, sterilization equipment and vaccines. All this was agreed in advance with the hospital managers so that the specific needs in each centre were known and the material delivered without intermediaries.



2008-2012 Strategic Plan

Repsol YPF is committed to a profitable and selective organic growth, which is based on ten strategic projects in course



Vision and strategic objectives

In February 2008, the 2008-2012 Repsol YPF Strategic Plan, was approved by the Board of Directors and the Executive Committee.

The new Plan is based on four major lines of activity:

- Maximising the profitability of current assets
- Rebalancing the asset portfolio towards OECD countries and strategic businesses
- Growth by means of 10 key projects
- Divestment of low-profit assets

Three of the ten Repsol YPF investment projects will be developed in the Iberian Peninsula

The Strategic Plan incorporates a new vision of the Group where the upstream business (Exploration and Production), downstream business (Refining, Marketing and Chemicals) and Liquefied Natural Gas (LNG) constitute the company's core business. Within this framework, YPF is considered an operative shareholding and Gas Natural a non-operative shareholding.

With this Plan, Repsol YPF has made a commitment to organic and selective growth by means of major projects in OECD countries. As a result of this strategy, on the horizon of the Strategic Plan 2008-2012, 55% of the company's assets will be located in OECD countries and the relative weight of assets in Latin America will have decreased by 31%.

The new Plan is based on the principles of growth-oriented management and profitability that increases value for shareholders, other stakeholders and society in general. All this lies within the framework of the principles of sustainable development and the company's commitment to contributing to the welfare of the countries and communities in which it is present. Concern for safety, environmental protection and corporate responsibility, form part of the company's strategy.

2008-2012 Investments

The Strategic Plan forecasts a total investment of €32,800 million through 2012. Of this, €21,300 million will correspond to Repsol YPF's core business, €7,800 million to YPF and €3,700 million to Gas Natural. The breakdown by business within the core business includes €10,500 million for Refining, Marketing and Chemicals, €10,300 million for Upstream and LNG, with the rest corresponding to investments in Corporation.

The ten key projects that will determine the company's organic growth in the next few years will concentrate 60%, €12,300 million, of investments on the core business.

Of these projects, three, with a total investment of €4,800 million, will be developed in the Iberian Peninsula in the Downstream area: the expansion of the Cartagena refinery, the new coker at the Bilbao refinery and the expansion of the Sines petrochemical complex in Portugal.

In the upstream area, Repsol YPF will develop five major growth projects in which it will invest €2,100 million through 2012: the Shenzi and Genghis Khan megafields in the waters of the Gulf of Mexico, the Carioca deposit in the deep waters of Brazil, the development of the I/R field in the prolific Murzuq basin in Libya, the Reggane block in Algeria and block 39 in Peru.

At the end of the Strategic Plan, more than half of the company's assets will be located in OECD countries and the relative weight of assets in Latin America will have decreased by 30%

In Liquefied Natural Gas, an activity in which Repsol YPF has major international presence and a competitive advantage due to its position in the Atlantic Basin, two key growth projects will be developed: Peru LNG in Camisea (Peru) and the Canaport regasification terminal in Canada.

The development of these projects will enable a new Group structure with a more balanced asset portfolio and less risk exposure.

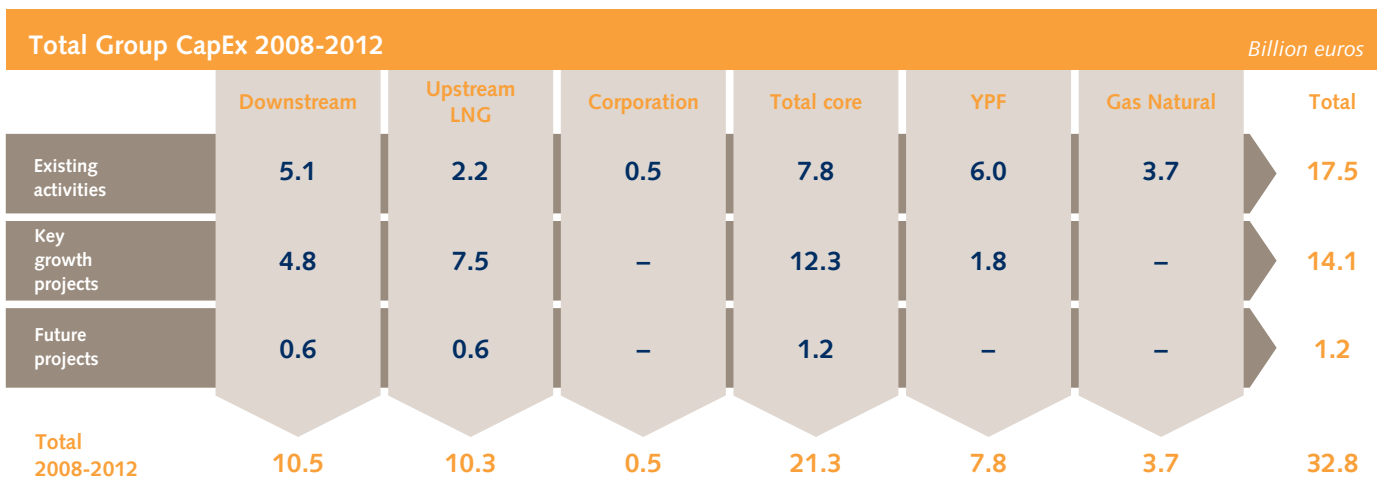
Growth projects in strategic businesses

Downstream (Refining, Marketing, Chemicals)

The strategic lines of this business area are the maximisation of profitability of the company's current assets and the expansion and improvement of conversion in the Iberian Peninsula. The Strategic Plan contemplates three major growth projects that will consolidate Repsol YPF's competitive position and leadership in downstream.

Expansion of the Cartagena refinery

Among other units, the project contemplates the construction of a new hydrocracker and a new coker with a capacity of 2.5 million tonnes/year and 3 million tonnes/year, respectively. With this expansion, the Cartagena refinery will increase its conversion from 0 to 76%, increase its medium distillates production to 7.3 million m³ and double its production capacity to reach 220,000 barrels per day. Investment will amount to €3,200 million and it is forecast to be in operation in the second quarter of 2011.



Conversion increase in the Bilbao refinery

This €700 million project consists of the construction of a new coker that, with a capacity of 2 million tonnes per year, will increase the conversion rate of the refinery from 32% to 63%. It will be in operation in the fourth quarter of 2010.

Expansion of the Sines petrochemical complex

The Sines project contemplates the expansion of the cracker to 570,000 tonnes per year and the construction of new polyethylene and polypropylene units, each with a capacity of 300,000 tonnes per year. Total investment will be €850 million. With this project, forecast to be completed in the last quarter of 2010, the Sines complex will increase cracker capacity by 40% and its polyolefins production by 300%.

Upstream

Repsol YPF has identified three strategic areas in which it will centre organic growth in the next few years: the deep waters of the American Gulf of Mexico and Brazil, North Africa, northern Latin America and Trinidad and Tobago. Five of the ten key projects correspond to Exploration and Production.

Close to 33 billion euros in investment, guarantee the company's organic growth for the next four years

Gulf of Mexico: Shenzi and Genghis Khan

With a net investment for Repsol YPF of 700 million during the 2008-2012 period, the development of this megafield will mean a net production in 2012 of 31,000 boepd and the incorporation of net reserves of up to 190 million boepd during the period. The production start date for Shenzi is forecast for 2009, while Genghis Khan entered production in October 2007.

Brazil: Carioca discovery

The Strategic Plan foresees that in 2012 this project will contribute 23,000 boepd to Repsol YPF's net production and its net reserves are estimated between 80 and 90 million boe. In 2008, an intensive exploration programme will be undertaken and the discovery is expected to be released for production by 2012. This will require an investment of €500 million.

Libya: I/R field

The development of this field, forecasted to be operational in 2008, will contribute a net production in 2012 of 7,500 boepd and net reserves of between 30 and 40 million boe. The forecast net investment during the period is €100 million.

Algeria: Reggane project

Estimated net gas production for 2012 is 9,400 barrels per day, with net reserves of between 130 and 145 million boe. This project will be operational in 2012 and €450 million will be invested over the period.



Peru: block 39

With a net investment of €350 million between 2008 and 2012, block 39 will be operational by late 2011, with an estimated net production in 2012 of 21,000 boepd and net reserves of between 100 and 120 million boe.

The development of these and other selective exploration projects, together with the recent discoveries in Brazil, Libya, Algeria, Bolivia and Peru, will bring about an increase in the production of hydrocarbons of more than 5% per year, exceeding 410,000 barrels per day in 2012 (excluding Argentina). With regard to the reserve replacement ratio, the strategic objective for 2012 is to exceed 125%.

Liquefied Natural Gas (LNG)

Repsol YPF has significant competitive advantages in the commercialisation and trading of LNG and has a strong position in the commercialisation business in the Atlantic Basin. There are two growth projects in this core business, in addition to the project that is already under way in Trinidad and Tobago.

Peru LNG integrated project

This project is forecast to be operational by 2010 and contemplates the construction of a liquefaction plant with a capacity of 6.2 bcm per year that will be supplied by gas from the Camisea deposit. Repsol YPF will be its exclusive trader. Investment over the period will total 400 million.

Canada: Canaport LNG

The construction of the regasification terminal in Canada with a capacity of 10 bcm per year will enable supply to the United States market. 300 million will be invested in this project and it will be in operation in 2009.

On a whole, Repsol YPF will multiply its LNG trading volume by 4.4 to reach 18 bcm per year, which is equivalent to half the amount of the annual gas consumption in Spain.

Solid financial position

In accordance with the Plan, Repsol YPF forecasts the following growth in 2012:

- Net profits, excluding extraordinary incomes and divestment, will be multiplied by 2.8.
- EBITDA will be multiplied by 1.8.
- Operating income will be multiplied by 2.1.

The strategy will enable the company to obtain a solid financial position and to improve shareholder returns. The creation of value for the shareholders is one of the priorities of the Strategic Plan, and the company will maintain a policy of dividend growth, allocating a significant part of its profits to increase payments to its shareholders.

By the end of the Strategic Plan, the net income will have multiplied by 2.8 of which a significant part will be destined to increasing shareholder dividends

Management's Report Supplementary Contents

Pursuant to the Securities Market Act section 116 bis

A. Structure of the capital, including any securities not traded on a EU regulated market, indicating the different classes of shares, if any, the rights and obligations granted by each class and the percentage of capital it represents.

Repsol YPF, S.A. currently has a capital of 1,220,863,463 euros, divided into 1,220,863,463 shares with a par value of 1 euro each, fully subscribed and paid up, all in the same class and, consequently, with the same rights and obligations.

The Repsol YPF, S.A. shares are issued in book-entry form and were admitted in their entirety for listing in the electronic continuous trading system of the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia), New York (New York Stock Exchange) and Buenos Aires (Bolsa de Comercio de Buenos Aires).

B. Any restriction on the transferability of shares

By virtue of Supplementary Provision 11 of the Hydrocarbons Act 34/1998, as amended by Royal Decree-Law 4/2006 of 24 February, administrative authorisation of the Energy National Commission (Comisión Nacional de Energía) must be sought for certain acquisitions in companies that engage in regulated activities or activities subject to administrative intervention entailing a special relationship. However, according to the information published by Sacyr Vallehermoso in a significant event notified to the Securities Market National Commission (Comisión Nacional del Mercado de Valores, CNMV) on 26 October 2006, the Energy National Commission considered the purchase of shares in Repsol YPF, S.A. not subject to the authorisation contemplated in such Supplementary Provision.

C. Direct or indirect significant interest in the share capital

Up to the latest available date, the most significant holdings in the capital of Repsol YPF were:

Shareholder

	<i>% of total capital</i>
Sacyr Vallehermoso, S.A. ⁽¹⁾	20.01
Criteria Caixa Corp. ⁽²⁾	14.29
Petróleos Mexicanos	4.90
Chase Nominees, Ltd.	9.83
Axa, S.A. ⁽³⁾	4.21

⁽¹⁾ Sacyr Vallehermoso, S.A. holds its interest through Sacyr Vallehermoso Participaciones Mobiliarias, S.L.

⁽²⁾ Criteria Caixa Corp. holds 9.27% directly and 5.02% indirectly through Repinves, S.A. (67.60%-owned by Criteria Caixa Corp.).

⁽³⁾ Axa, S.A. holds its interest through Alliance Bernstein and other subsidiaries of the Axa Group.

Barclays Global Investors, NA, Barclays Global Investors, Ltd., Barclays Global Fund Advisors and Barclays Global Investors (Deutschland) AG, informed CNMV on 18 January 2008 of an agreement concerning the concerted exercise of their voting rights in Repsol YPF for an interest of 3.22%. According to the information submitted to CNMV, these entities are managers of collective investment undertakings and the controlling company (Barclays Global Investors UK Holdings, Ltd.) does not issue any direct or indirect instructions for exercise of the corresponding voting rights held by said managers.

D. Any restriction on voting rights

- Article 27 of the Repsol YPF, S.A. Bylaws stipulates that no individual shareholder, or companies belonging to the same Group, may cast votes at a General Meeting of Shareholders in excess of 10% of the voting capital.
- Pursuant to Act 55/1999 (amended by Act 62/2003), the administrative authorities must be notified if any public entities, or entities of whatsoever nature majority-owned or controlled by public entities, acquire 3% or more in the capital of energy companies, whereupon the Council of Ministers shall, within a period of two months, authorise, deny authorisation or establish conditions for exercising voting rights (known as the “energy golden share”).

In this regard, a Judgment passed by the European Court of Justice (ECJ) on 14 February 2008 ruled that Spain has breached its obligations under Article 56 EC by maintaining in place measures such as the “energy golden share”, which limit the voting rights corresponding to shares held by public entities in Spanish companies operating in the energy sector.

- Furthermore, Article 34 of Royal Decree-Law 6/2000 establishes certain constraints on the exercising of voting rights in more than one principal operator of the same market or sector. Among others, it lists the markets of fuel production and distribution, liquefied petroleum gas production and supply and natural gas production and supply. The principal operators are considered to be the companies holding the five largest shares of the market in question.

These constraints are as follows:

- Individuals or entities directly or indirectly holding more than 3% of the capital or voting rights of two or more principal operators on the same market may not exercise the voting rights corresponding to the excess over that percentage in more than one of such companies.
- A principal operator may not exercise voting rights corresponding to an interest of more than 3% of the capital of another principal operator on the same market.

These prohibitions will not be applicable to parent companies that are principal operators in respect of any of their subsidiaries that are also principal operators, provided this structure is imposed by law or is the consequence of a mere redistribution of shares or assets among group companies.

The Energy National Commission, regulator of the energy market, may authorise exercise of the voting rights corresponding to the excess, provided this does not favour an exchange of strategic information or entail risks of coordination in strategic actions.

E. Shareholders' agreements

Repsol YPF, S.A. has not been notified of any shareholders' agreements regulating the exercising of voting rights at its general meetings or limiting or establishing conditions for the free transferability of the Repsol YPF, S.A. shares.

F. Rules applicable to the appointment and replacement of directors and to the amendment of the bylaws

• **Appointment**

Members of the board are appointed by the General Meeting of Shareholders, without prejudice to the power of the Board to appoint shareholders to fill any vacancies that may arise, up to the next general meeting.

No-one affected by the prohibitions established in section 124 of the Corporations Act or any other incompatibilities established in current laws may be appointed director of the company.

Nor may persons or entities that are in a permanent conflict of interest with the company be directors, including competing companies, their directors, executives or employees, or any persons related to or proposed by such companies.

Directors must be persons who, as well as meeting the requirements stipulated in law and the bylaws, have recognised prestige and adequate knowledge and professional experience and expertise to perform their duties.

Nominations for the appointment of directors submitted by the Board to the General Meeting and appointments made by cooptation must be approved by the Board (i) upon proposal of the Nomination and Compensation Committee, in the case of Independent Outside Directors, or (ii) subject to a report by said Committee for other directors.

• **Re-election**

The Nomination and Compensation Committee assesses the quality of work and dedication to office during the preceding term in office of any directors proposed for re-election.

The proposals for re-election of directors submitted by the Board to the General Meeting must be approved by the Board (i) upon proposal of the Nomination and Compensation Committee, in the case of Independent Outside Directors, or (ii) subject to a report by said Committee for other directors.

• **Retirement**

Directors shall retire from office upon expiry of the term for which they were appointed (unless they are re-elected) and in the other cases contemplated in law, the Bylaws and the Regulations of the Board.

Directors must also tender their resignations to the board in any of the following circumstances:

- a) When they are affected by any of the cases of incompatibility or prohibition established in law, the bylaws or regulations.
- b) If they are seriously reprimanded by the Nomination and Compensation Committee or the Audit and Control Committee for defaulting their obligations as directors.
- c) When, in the opinion of the Board, subject to a previous report by the Nomination and Compensation Committee:
 1. Their remaining on the Board could jeopardise the interests of the company or adversely affect the functioning of the board or the reputation of the company.

2. The reasons for their appointment have disappeared. This includes, in particular:

- Institutional Outside Directors, if the shareholder they represent or that proposed their appointment disposes of all their shares. They shall also tender their resignations and resign, should the board so deem fit, in the corresponding proportion, if the shareholder in question disposes of part of its shareholding interest, to an extent requiring a reduction in the number of its institutional outside directors.

-Executive Directors, if they cease to hold the executive positions outside the Board to which their appointment as director was linked.

The Board will not propose the removal of any Independent Outside Director before the end of the statutory term for which he/she has been appointed, unless there are just grounds for doing so, in the opinion of the Board, subject to a previous report by the Nomination and Compensation Committee. In particular, there shall be deemed to be just grounds when the director (i) has defaulted the duties corresponding to his/her office; (ii) is in any of the situations described in the preceding paragraphs; or (iii) falls into any of the circumstances described in the Regulations of the Board, whereby he/she can no longer be classified as a Independent Outside Director.

The retirement of Independent Outside Directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations entailing a change in the ownership structure of the company, insofar as this may make it necessary to establish a reasonable balance between Institutional and Independent Outside Directors, in accordance with the ratio of capital represented by the former and the rest of the capital.

• **Amendment of the Bylaws**

The Bylaws of Repsol YPF, S.A., available on its web site (www.repsolyypf.com), do not establish any conditions differing from those set out in the Corporations Act for their amendment, except for the amendment of the last paragraph of Article 27, concerning the maximum number of votes that may be cast at General Meetings by any one shareholder or the companies belonging to the same group. This resolution, and the resolution to amend this special provision contained in the final paragraph of Article 22 of the Bylaws, must be adopted with the favourable vote, on first and second call, of 75% of the voting capital attending or represented at the general meeting.

G. Powers of the Board, particularly those concerning the issuing or repurchasing of shares

The Annual General Meeting of Shareholders held on 31 May 2005 resolved to authorise the Board to increase the capital on one or several occasions over a period of 5 years by a sum not exceeding 610,431,731 euro (approximately half of the current capital), through the issuing of new shares paid up in monetary contributions.

At the Annual General Meeting held on 9 May 2007 the Board was authorised for a period of eighteen months for the derivative acquisition of own shares, directly or through controlled companies, up to a maximum number of shares not exceeding 5% of the capital, for a price or consideration no lower than the par value of the shares nor higher than its market price. This resolution left without effect the authorisation granted on the same terms and for the same duration, approved at the previous Annual General Meeting held on 16 June 2006.

Finally, in addition to the powers vested in the Chairman and Vice-Chairmen of the Board in the Bylaws and Regulations of the Board, the Executive Directors are granted general powers of attorney of the company by the Board of Directors, which are duly registered with the Commercial Register of Madrid.

H. Significant agreements entered into by the company, which are to become effective, be amended or terminate upon a change in the control of the company following a takeover bid, and the effects thereof, unless disclosure may be seriously detrimental to the company. This exception will not be applicable when the company is legally obliged to disclose this information.

The agreements between Repsol YPF and Caja de Ahorros y Pensiones de Barcelona ("la Caixa") in respect of Gas Natural SDG, S.A., disclosed as significant events through the CNMV, the Agreement for Industrial Activity between Repsol YPF and Gas Natural SDG, S.A., contemplated in the afore-mentioned agreements and notified as a significant event on 29 April 2005, and the Shareholders' Agreement between Repsol YPF and Gas Natural SDG concerning Repsol-Gas Natural LNG, S.L. contemplate, as grounds for termination, a change in the controlling structure of any of the parties.

I. Agreements between the company and its directors, executives or employees contemplating compensations when the latter resign or are dismissed without cause, or if their employment relationship is terminated as a result of a takeover bid.

- **Executive Directors**

The Chairman and the Secretary and General Counsel are entitled to a Deferred Economic Compensation in the event of termination of their relation with the company, provided such termination is not due to any default of their obligations or at their own desire, without any of the justifying causes contemplated in the contract. The amount of the compensation for termination of the relation is three years' total monetary remuneration.

- **Executives**

The Repsol YPF Group has established a single legal statute for its executives, set out in the Executive Contract, which regulates the compensations applicable in cases of termination of the employment relationship, contemplating as grounds for compensation those stipulated in current legislation.

For Executive Officers, these grounds include resignation by the executive following a business succession or major change in the ownership of the company, resulting in a material change in the members of the governing bodies or in the contents and approach of the principal activity of the company.

The amount of these compensations is calculated according to the age, seniority and salary of the executive, except in one case, for which compensation has been established at the equivalent of three years' total monetary remuneration.

Additional information of these matters is detailed in Note 34 to the financial statements.