

Consolidated Management Report 2008 Repsol YPF

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2008

1

Economic-Financial Information

1.1

Macroeconomic environment

The year ended 31 December 2008 was marked by the global economic crisis and uncertainties. Economic growth had started to slow down in the first quarter of 2007 due to turbulence in the financial system, which, at first, affected structured credit markets and their funding requirements, intensifying subsequently and generating tensions in the credit market beyond the issue of subprime mortgages. The financial crisis became more toxic in 2008 and markets entered a vicious cycle of deleveraging and declining asset values, affecting the real economy because of the significant loss of confidence, leading to a recession in major advanced economies.

In its January 2009 report, the International Monetary Fund (IMF) estimated that global growth in 2008 had declined to 3.4% in comparison with the 5% growth recorded in recent years. Growth in advanced economies was weaker in 2008, approximately 1% (2.7% in 2007), and emerging and developing economies grew 6.3%, showing strong performance albeit lower than the 8.3% growth recorded in 2007. These figures show that the impact of the financial crisis on mature markets was more intense than on emerging ones which demonstrated great resistance until the last quarter of the year when financial tensions peaked as Lehman Brothers, the U.S. investment bank, declared bankruptcy.

Another important factor in the context of the 2008 macroeconomic scenario was the sharp rise in inflation up until the third quarter, whereafter it fell sharply, principally as a consequence of the evolution of raw materials, oil, and cereals prices. Oil prices in 2008 continued the upward trend that began in 2002. The average price of Brent was US\$ 97 vs. 72 recorded in 2007; although it was highly volatile reaching a maximum of US\$ 133 in July 2008 and then plunging to a monthly average US\$ 40 in December because of the slump in global economic activity.

The oil market in 2008 was extremely volatile. Prices in the first part of the year followed the upward trend in place since the start of 2007, continuing to climb from the average US\$ 92/barrel in January reaching a record high, in nominal and actual terms, in early July when, in the specific case of West Texas Intermediate (WTI) prices peaked at more than US\$ 145/barrel. Various factors were responsible for this rise, such as: inelastic demand, particularly in countries not members of the Organization for Economic Co-operation and Development (OECD); the uncertainty on whether supply would be able to meet demand in the short, medium, and long term; and the development of a financial market that was significantly commodity-leveraged. The turning point came in August when the financial crisis spread to oil markets through: reduced demand in view of the macroeconomic outlook; and deleveraging in the financial market. Oil prices fell to levels not seen since 2004, averaging US\$ 99.45/barrel at the end of 2008.

The moderation in inflation, registered as of August 2008, because of weak demand and lower commodity prices, enabled central banks to take coordinated action, drastically reducing interest rates and injecting liquidity. Governments intervened providing public funds to recapitalise banking entities and to purchase so-called toxic assets, also coordinating major tax stimulus measures to mitigate the adverse impact of the financial crisis and its effects on the real economy.

In the United States, GDP in 2008 grew 1.1%, down from the 2% recorded in 2007. The crisis, which was initially concentrated in the housing sector, spread to the manufacturing industry and is intensely affecting private spending.

The Euro zone, which showed positive performance in the first half of 2008, was also severely affected by the financial crisis in the second part of the year, and average growth fell from 2.6% in 2007 to 1%.

In Spain, the international financial crisis aggravated the real estate market correction that started in 2007. This scenario adversely affected domestic demand and, as a consequence, GDP at year-end 2008 stood at 1.2% compared to 3.7% in the last decade, following two quarters of an economic downturn, something which had not happened in 15 years.

Latin America in 2008 benefitted from high raw materials prices in the first half of the year and greater macroeconomic stability, recording nearly 4.6% economic growth, one percentage point less than in 2007. Nevertheless, the financial crisis also affected the last part of 2008 because of the deleveraging process, against a backdrop of growing uncertainties.

1.2

Results

At €2,711 million, Repsol YPF's net income in 2008 was 15% below the record figure posted in 2007. Operating income was €5,083 million in comparison with the €5,808 million posted a year earlier. Earnings per share were €2.23.

The year 2008 was marked by high oil price volatility and the average depreciation of the dollar during the year. The price of Brent oil peaked at US\$ 145 per barrel in July and then started to decline until reaching US\$ 41 by the end of the year.

Operating income in the Upstream business (Exploration and Production) was up 20% to €2,258 million reflecting higher oil benchmark prices.

Liquefied Natural Gas (LNG) revenues rose 17% to €125 million driven by increased activity and higher prices of the main commodities and in the Spanish electricity pool.

Income in the Downstream area (Refining, Marketing, Liquefied Petroleum Gas, and Chemicals) once again showed Repsol YPF's leadership in this business. Operating income in the year reflected the year-on-year improvement in refining margins although this business was negatively affected by the sharp contraction of the Chemical business in 2008 because of the global economic slump.

Operating income in Repsol YPF associates was €1,159 million, 5.6% less than in 2007. Higher prices in the Argentinean market offset the rise in costs, the drop in exports and in the chemical business, and the depreciation of the peso. At €555 million, operating income in Gas Natural SDG increased 7.6%. This growth is attributable to higher year-on-year average electricity prices in Spain, the increase in electricity generation, the incorporation of the power business in Mexico, and enhanced performance in the gas business, particularly in regulated distribution in Brazil and in gas procurement and marketing in deregulated markets.

Repsol YPF Group's financial result in 2008 amounted to €372 million and income tax accrued in 2008 totalled €1,940 million, with the effective tax rate at 41.2%.

REPSOL YPF INCOME STATEMENT	Millions of Euros	
	2007	2008
OPERATING INCOME	5,808	5,083
Upstream	1,882	2,258
LNG	107	125
Downstream	2,204	1,111
YPF	1,228	1,159
Gas Natural SDG	516	555
Corporate and other	(129)	(125)
FINANCIAL RESULT	(224)	(372)
PROFIT BEFORE TAX AND SHARE IN RESULTS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD	5,584	4,711
Income tax	(2,338)	(1,940)
Share of results in companies accounted for using the equity method	109	66
NET INCOME FOR THE YEAR	3,355	2,837
Net income attributable to minority interests	(167)	(126)
NET INCOME ATTRIBUTABLE TO THE PARENT	3,188	2,711

1.3

Financial overview

Despite the difficult macroeconomic scenario, Repsol YPF'S financial position remained strong at the end of 2008. Financial debt stood at €3,334 million, €159 million less than at the end of 2007. This debt reduction was achieved notwithstanding the proportionate consolidation of Gas Natural SDG's net debt which increased during the year mainly because of the partial acquisition of the electric utility Unión Fenosa.

Excluding Gas Natural, net debt fell by €488 million thanks to the volume of generated EBIT-DA, which exceeded the amount of net investments, dividend payments, and tax liabilities.

The year-on-year appreciation of the dollar in 2008 increased the nominal amount of net debt, most of which is denominated in this currency, by €179 million.

The Strategic Plan 2008-2012, approved by Repsol at the beginning of the year, served as the guideline for the investments made in the year. The company invested €5,586 million in 2008, most of which amount was spent in developing the Shenzi exploration well in the United States, the construction of the Canaport (Canada) regasification plant, the Peru LNG project, and exploration activity. Expenditures include €517 million for the partial acquisition of Unión Fenosa by Gas Natural in July 2008. Other expenditures were earmarked for ongoing refining projects, for upgrading operations and installations, safety and the environment, fuel quality, and conversion. The Final Investment Decision (FID) for the Cartagena (Spain) refinery enlargement project was made in 2008.

Divestments in the year totalled €1,721 million. On 21 February 2008, Repsol sold a 14.9% stake in YPF to the Petersen Group for US\$ 2,235 M, providing the purchaser with a vendor loan in the amount of US\$ 1,015 M. The Petersen Group will be able to increase its stake in YPF by an additional 10.1% through a call option within a maximum period of four years. This Group already exercised an option for an additional 0.1% stake.

In 2008 and as part of its non-core asset divestment strategy, the Company sold its service station network in Ecuador and Brazil and its interest in the Manguinhos refinery, also in Brazil.

In 2008, Repsol paid its shareholders €1,608 million in dividends, of which amount €1,221 million were charged to 2007 results (39% higher than the previous year's remuneration). The remaining sum relates to dividends paid to minority shareholders of subsidiary companies, principally to the Petersen Group.

With regards to transactions involving own shares, the Annual General Meeting, on 14 May 2008, resolved to grant authorization to the Board of Directors "for the derivative acquisition of shares of Repsol YPF, S.A. by purchase, exchange, or any other onerous legal business modality, directly or through controlled companies, up to a maximum number of shares that, added to those already held by Repsol YPF, S.A. and its subsidiaries, do not exceed 5% of share capital and for a price or equivalent value that may not be lower than the nominal value of shares nor exceed the quoted price on the stock market."

This authorization is valid for 18 months reckoned from the date of the Annual General Meeting, rendering null and void the authorization granted by the previous Ordinary Annual General Meeting held on 9 May 2007.

Accordingly, in 2008, Repsol acquired 12,924,428 own shares representing 1.06% of the Company's share capital for a total sum of €261.73 million and a nominal value of €12.92 million. In addition, Repsol sold 695,000 own shares with a nominal value of €0.69 million and an effective sum of €17.50 million. At 31 December 2008, Repsol held 12,229,428 own shares.

Financial prudence

In keeping with its prudent financial policy, Repsol YPF holds a significant volume of financial investments included in the captions listed under Note 15 of the Annual Report as "Other financial assets at fair value through profits or loss", "Loans and accounts receivables" and "Held to maturity investments" for an amount of €4,625 million of which, €4,452 million correspond to Repsol, excluding Gas Natural. The Group also has undrawn credit facilities amounting to €3,916 million, of which €3,496 million correspond to Repsol, excluding Gas Natural.

Consequently, net debt and the net debt/capital employed ratio, in which capital employed refers to net debt plus net equity, provides a true and fair view of the volume of necessary borrowings and their relative weighting in the funding of capital employed in operations.

At 31 December 2007, the net debt to capital employed ratio stood at 11.9%, 2.9 points lower than at year-end 2007. Taking preferred shares into account, the variation in this ratio was from 26.4% at 31 December 2007 to 24.4% at the close of 2008.

BREAKDOWN OF NET DEBT	Millions of Euros
NET DEBT AT THE START OF THE PERIOD	3,493
Ebitda	(8,160)
Variation in working capital	(1,187)
Investments	5,586
Divestments ⁽¹⁾	(1,721)
Dividends (including affiliates)	1,608
Translation differences	179
Taxes paid	2,399
Other movements	1,137
NET DEBT AT THE CLOSE OF THE PERIOD	3,334

(1) The divestment figure includes €690 million in connection with the loan granted to the Petersen Group as part of the sale of a 14.9% stake in YPF on 21 February 2008. Moreover, it does not reflect divestments of long-term financial investments (€14 million) since this does not affect the variation in net debt.

The following table describes the calculation of reported net debt on the basis of balance sheet information contained in the consolidated financial statements.

	Millions of Euros	
	2007	2008
Non-current financial liabilities	10,065	10,315
Less: preference shares (See Note 19)	(3,418)	(3,524)
Current financial liabilities	1,501	1,788
Non-current financial assets	(1,650)	(2,466)
Less: financial assets available for sale (See Note 15)	138	881
Other current financial assets	(266)	(494)
Cash and cash equivalents	(2,585)	(2,891)
Hedging derivative instruments on interest rate (See Note 38)	(292)	(275)
Net financial debt	3,493	3,334
Preference Shares (See Note 19)	3,418	3,524
Net financing ^(*)	6,911	6,858

(*) In addition, €721 million and €632 million are recorded at 31 December 2008 and 2007 under the heading "Other non-current liabilities" and €31 million and €61 million under the heading "Other creditors" relating to financial leases measured at amortized cost (See Note 23).

Notes to the 2008 consolidated financial statements.

Management of financial risks and definition of hedging

The organization and systems at Repsol YPF enable the Company to identify, measure, and control the risks associated with the financial instruments to which the Group is exposed. The Group's activities involve several types of financial risks:

Liquidity Risk

The liquidity risk is associated with the Group's ability to finance its commitments at reasonable market prices and to execute its business plans with stable funding sources.

Repsol YPF applies a prudent policy with respect to liquidity risk, keeping sufficient resources available in cash and other liquid financial instruments and undrawn credit facilities to meet the maturities of debt falling due within a twelve-month horizon. The Group had undrawn credit facilities totalling €3,916 million and €4,132 million at 31 December 2008 and 2007, respectively.

Credit Risk

The Group's credit risk exposure mainly relates to commercial debts from trading transactions. These amounts, which totalled 5,758 million and 7,103 million at 31 December 2008 and 2007, respectively, are recorded in the balance sheet net of allowances for doubtful accounts and are measured and controlled per client or per individual third party. To this purpose, the Group has its own systems, aligned to best practices, for constantly monitoring the creditworthiness of all its debtors and for determining the risk limits per third parties. None of the clients account for more than 4% of the total of these accounts payable and as such, exposure is spread over a large number of clients and other counterparties.

On a general basis, the Group considers bank guarantees issued by financial entities as the most suitable instrument for credit risk protection. In certain cases, the Group has taken out credit insurance policies through which it transfers to third parties the risks associated with the trade activities conducted by some of its business units.

At 31 December 2008, the Group's guarantees in force granted by third parties totalled €2,460 million, having executed €10 million of such guarantees. At 31 December 2007, this figure stood at €1,949 million, with €19 million worth of guarantees having been executed.

Note 5 of the consolidated financial statements provides additional details on the risks associated with the financial instruments used by the Group and Note 38 describes hedging financial instruments.

1.4**Business Risk factors**

Risks related to factors that affect the Group exclusively or external factors affecting all companies in the industry are part of the environment in which the Repsol YPF Group conducts its activities. These risks could have an impact on the Company's business, operations, results and financial situation. Future risks, unknown at present or not considered relevant, could also affect the Company's business.

Currency risk

Income from operations is exposed to currency exchange fluctuations, mainly the dollar against the euro, since most of the Group's revenues and part of its expenses are denominated in dollars or are dollar-indexed. In order to mitigate the risk of the dollar component, Repsol YPF hedges this risk by taking out currency options.

The company is also exposed to currency risk affecting the value of its assets or financial investments in dollars. Most of Repsol YPF'S financing is in dollars, either directly or synthetically through currency derivatives.

Commodity price risk

In the normal course of operations and trading activities, Repsol YPF Group earnings are exposed to volatility in the price of oil, natural gas, and related derivative products.

Interest rate risk

The market value of the Group's net financing and net interest expenses could be affected by interest rate fluctuations.

Regulatory risks

The oil and gas industry is subject to widespread government regulation and intervention such as those related to exploration and production permits, specific contractual obligations for drilling and exploration activities, production restrictions, price controls, asset divestments, currency controls, and nationalization, expropriation, or the cancellation of contractual rights. These regulations and laws apply virtually to all Repsol YPF operations in the countries where it conducts its activities. Furthermore, these laws and regulations could change in the future.

Furthermore, the Repsol YPF Group is subject to increasingly stringent environmental requisites in practically all the countries where it operates. These affect the company's operations in relation to issues such as the environmental quality of its products, emissions to air, climate change, discharges into water, and management of underground water resources, as well as in relation to the generation, storage, transport, treatment, and final destination of waste. These requisites have and will continue to have a substantial impact on Repsol YPF's business, its financials, and income from operations. Consequently, the company has made and will continue to make the necessary investments to comply with these requisites.

2

Business Areas

2.1

Upstream (Exploration and Production)**Results**

Operating income in the Upstream division in 2008 was €2,258 million, 20% higher in comparison with the €1,882 million posted a year earlier. EBITDA amounted to €2,864 and €2,631 in 2008 and 2007, respectively. Enhanced earnings performance was mainly driven by revenue growth on the back of higher realization prices.

The average retail price of the Repsol oil product mix was US\$ 87.3/barrel (€59.3/barrel) versus US\$ 61.5/barrel (€44.8/barrel) in 2007. The average price of gas was US\$ 4.2 per thousand cubic feet, 37% higher year-on-year. These increases were driven by higher oil benchmark prices in international markets. Oil played a major role in the 2008 economic scenario. After starting the year at high levels, the price of oil continued to climb until reaching a record US\$ 147/barrel, falling sharply thereafter until it reached less than US\$ 40/barrel in December.

The lifting cost was US\$ 2.24/barrel, 1.8% higher than US\$ 2.20/barrel in 2007. Decreased production largely because of the deconsolidation of Andina in Bolivia and the cessation of operations in Dubai were behind this drop. Finding costs of proved reserves averaged US\$ 10.9/barrel in the 2003-2008 period.

Main activities by countries

Major strides were made in 2008 in the consolidation process of the Upstream business in key regions for the Company, such as the Gulf of Mexico (United States), Brazil, Peru, North Africa, and Trinidad and Tobago. To bolster Repsol's defined diversification and growth strategy for OECD countries, the first steps were taken in 2008 towards the start of operations in Canada and Norway. The objective is to ensure organic growth by maximising asset profitability and boosting production and reserves over the 2008-2012 period.

United States

Over the past three years, Repsol has significantly strengthened its presence in deep waters in the U.S. Gulf of Mexico, participating in the major Shenzi oil development project and securing a large number of exploration blocks. This region is considered one of the most profitable and offers the greatest deepwater exploration potential in the world.

The Company holds a 28% interest in the Shenzi field, one of the largest deepwater discoveries made to date in the Gulf of Mexico, currently in the final development phase. The project is progressing as scheduled and production is expected to come on stream in second quarter 2009.

In early 2008, Repsol was awarded 32 new exploration blocks in Exploration Round 206 in the Gulf of Mexico, which, together with others awarded in recent years, comprise a very solid exploration project portfolio. The Company's participation in these rounds is part of its strategy for diversification and growth in OECD countries.

Africa

Repsol has a significant presence in North Africa, mainly concentrated in Libya and Algeria, countries where it has two major ongoing projects that ensure sustained and profitable growth over the coming years.

In Libya, in June 2008 the "I/R" field in the prolific Murzuq basin in Blocks NC186 and NC115 came on stream. Repsol participates in both of these blocks. Discovered in 2006, the "I/R" field is one of the Company's most important exploration discoveries in its history and the most important one in Libya in the last decade. With a production potential of 90,000 barrels/day, development of this field will give a major boost to the Company's reserves and production in this country. The "I/R" field is one of the 10 key projects defined in Repsol's Strategic Plan 2008-2012.

At the end of 2008, the Libyan National Oil Company (NOC) authorized the development plans submitted for the "J" and "K" fields in block NC186 (Repsol, Total, OMV, and Statoil-Hydro). The development plan for field "E" in block NC-200 (Repsol and OMV) should be

approved in the first half of 2009, thereby enabling the start of production of these three new fields. In addition, a new exploration discovery was made in 2008 in block NC186 with the Y1 exploration well.

On 17 July, Repsol and NOC, the Libyan national oil company, executed an agreement that extends the term of the oil exploration and production contracts in this country until 2032. The new agreement extends the term of the contracts for blocks NC115 and NC186 in the prolific Murzuq basin, until 2032. This implies a 15-year extension of the term of the Block NC115 contract and another five to nine years, depending on the fields, of the contract for Block NC186. The agreement ensures Repsol's exploitation of the abundant resources discovered in both blocks, which exploration licenses were also extended for an additional five years.

Two new gas discoveries were made in Algeria in 2008 in the Reggane basin in block 351c-352c operated by Repsol. These discoveries are in addition to those made in the same block in previous years. Sonnatrach's "Declaration of Commerciality" (DoC), expected to be secured in 2009, will make it possible to start the development of this major gas project. Two other discoveries were made in this country in the M'Sari Akabli block in which Repsol is also the operator.

Latin America

Brazil is one of the principal areas for Repsol's future growth. With 21 exploration blocks (operator in 11 of these) Repsol is the leading private company in offshore mining rights in the Santos, Campos, and Espiritu Santo basins.

Repsol holds a 10% interest in the Albacora Leste field (Santos basin), which has been producing since April 2006. Output in this major deepwater field in Brazil reached approximately 140,000 barrels/day in 2008. It has more than 400 million barrels of proved and probable oil reserves.

A new major discovery was made in second quarter 2008 in Brazilian deep waters in block BM-S-9 in the Santos basin with the Guará prospect. This finding is in addition to the one made in the Carioca field, situated in the same block, at the end of 2007. According to preliminary appraisals, both fields offer enormous potential of high quality oil resources. This Brazilian offshore area is considered one of the most promising and offers the greatest potential in the world.

The exploration discoveries in block BM-S-9 bolster the company's strategy in offshore Brazil and represent one of the key growth projects in Upstream. Two additional wells will be drilled in this block in 2009.

In Bolivia, an agreement was executed in May 2008 with the Bolivian company YPFB for the sale of a 1.08% stake in Andina. Following this transaction, the shareholder structure of Andina is broken down into YPFB (51.08%) and Repsol E&P Bolivia (48.92%). In addition, a Shareholders' Agreement was executed in October 2008 that will govern the operations and management of this company. This agreement came into force in November 2008.

In Trinidad and Tobago, Repsol is one of the leading private companies in terms of oil and gas production and reserves, jointly with BP, with which it shares ownership of bpTT. This company, in which Repsol holds a 30% stake, operates a large oil and gas production area in the country's offshore. Its output in 2008 averaged more than 460,000 barrels of oil equivalent.

The Teak Blow Down gas compression project, for domestic sales, was completed in fourth quarter 2008, boosting gas production by 700,000 m³/day as of January 2009.

The bpTT fields, Mango and Cashima, which started production in fourth quarter 2008, contributed to increasing output in 2008, supplying gas to train 4 at the Atlantic LNG liquefaction plant in which Repsol holds a 22.22% stake.

In Peru, the work for the complete development of the Camisea field (blocks 56 and 88), in which Repsol holds a 10% interest, was ongoing. These blocks will supply natural gas to the future Peru LNG project liquefied natural gas facility that is expected to come on stream in 2010 and in which Repsol holds a 20% stake. Two fields are being developed in block 88, San Martín (producing since 2004) and Cashiriari, and production in the Pagoreni field in block 56 came on stream in September 2008.

Also in Peru, in January 2008 Repsol made a major exploration discovery at the Kinteroni well in block 57, located in the Ucayali-Madre de Dios basin in the country's central forest, 50 km from the Camisea gas and condensate field. The presence of gas and condensate in the Kinteroni field was confirmed and its significant resource potential is currently being appraised. Repsol, with a 53.84% stake, is the operator of this block.

In Colombia, the Capachos Sur field, in the Capachos block, started producing in April 2008. Repsol holds a 100% stake in this 259 km² block situated in the Llanos basin.

Alaska and Canada

In first quarter 2008, Repsol was awarded 93 blocks in Alaska in exploration round 193. These offshore blocks, in the Chukchi Sea, extend over an area of 2,139 km². The company's objective is to create a large project portfolio in this almost unexplored area with huge potential of undiscovered resources. To this end, in July 2007 the Repsol had reached an agreement with Shell Offshore Inc. and Eni Petroleum US LLC to explore 71 adjacent offshore blocks in Beaufort Sea, north of the prolific Prudhoe basin and the Kuparuk oil fields. Repsol holds a 20% stake in these blocks.

In Canada, at the end of 2008 Repsol successfully bid for exploration rights in three blocks in the Newfoundland (Terranova) and Labrador offshore areas. Two of these blocks are in the Central Ridge/Flemish Pass area and the other one in Jeanne d'Arc Basin. Repsol's partners in these blocks, with a total surface area of 4,000 km², are the Canadian companies Husky Oil and Petro-Canada. The awarded mining rights mark another step forward in the company's plans to increase its presence in oil and gas exploration and production activities in OECD countries.

Europe

In Norway, and in keeping with the diversification and growth strategy in OECD countries, an agreement was executed in September 2008 with Norway's Det Norske Oljeselskap ASA (Det Norske) for jointly studying the areas put out to tender in Exploration Round 20. Repsol holds a 40% interest in this project with Det Norske holding the remaining 60%. In November, the companies submitted a joint bid for four blocks. Repsol also submitted a bid for 100% of another three blocks. The results of this round will be announced in 2009.

In October 2008, also in Norway, Repsol, jointly with Det Norske, Bayerngas, and Svenska, bid for four blocks situated between the Njord and Draugen (Norway Sea) fields, in Round APA 2008 (Award of Predefined Areas). The outcome will be announced in 2009.

Discoveries

Repsol made 10 new exploration discoveries in Brazil, Peru, Algeria, Colombia, and Libya in 2008.

In June 2008, Repsol discovered a second deepwater oilfield in the Santos basin, Brazil. The new field, known as Guará, is situated in block BM-S-9 and is adjacent to the Carioca field, also in this block, discovered at the end of 2007. Both fields could contain enormous high-quality oil resources, according to preliminary appraisals, and confirm this basin as one of the deep water areas with the greatest potential worldwide.

The presence of light oil with a density of approximately 28° API was found in the new field, discovered by a consortium formed by Petrobras (45% and the operator), BG (30%), and Repsol (25%) at 310 km off the coast of the State of Sao Paulo at a depth of 5,000 metres in more than 2,000 metres of water.

Repsol and its partners in the block will continue carrying out the activities and making the necessary investments in 2009 in order to determine the size of the Carioca and Guará oilfields with greater precision and to define the future development plan. Two additional wells will be drilled in 2009 and production tests will be conducted in the Guará well. Development of these deepwater projects in the Santos basin is one of the ten key initiatives contemplated by Repsol in its Strategic Plan 2008-2012.

In Brazil, two other major deepwater gas discoveries were made at the beginning of 2009 in the Pialamba and Panoramix fields in Santos basin.

In Peru, a significant exploration discovery was made in January 2008 in block 57 in Cuzco province at the Kinteroni exploration well. Repsol, with a 53.84% stake, is the operator in the consortium that will exploit the field (Petrobras holds the remaining 46.16% stake). Preliminary production tests yielded flows of one million cubic metres of gas per day (0.365 bcm/year) and 198 cubic metres per day of associated hydrocarbon liquids (72,270 m³/year). In order to define a commercial and development plan for this discovery, a 3D seismic campaign will be conducted at the Kinteroni structure and several appraisal and exploration wells will be drilled in the block. This should enable a more precise assessment of the discovered resources, which have been preliminarily estimated at approximately 2TCF (56 bcm).

Kinteroni, next to the Camisea gas field in blocks 56 and 88 and in which Repsol has a 10% stake, will supply gas to one of the company's major Liquefied Natural Gas (LNG) projects: Peru LNG.

In Algeria, two new exploration discoveries were made with the AZSE-2 (Azrafi SE) and KLS-1 (Kahlouche S) wells in block 351c-352c (Reggane Nord), in the Reggane basin. Repsol, with a 33.75% stake, is the operator of the consortium jointly with Algeria's state-owned Sonatrach (25%), Germany's RWE Dea (22.5%) and Italy's Edison (18.75%). Situated in the central-southern part of the Algerian Sahara Desert, the block extends over a large 4,682 km² area. This discovery is in addition to another four made in the same block in early 2005 (with the Reggane 5), 2006 (with the Sali 1 and Kahlouche-2 wells) and the last discovery made in 2007 (with the Reggane 6 well).

In this North African Country, two other exploration discoveries were made in the M'Sari Akabli block with the TGFO-1 and OTLH-2 (Oued Talha) wells. Repsol holds a 33.75% stake and is the operator of this 8,103 km² block.

In early 2009, a discovery was announced in Gassi Chergui, Berkine basin, with well AL-2.

In Colombia, three discoveries were announced. Two of these were made with the Cosecha Z and Cosecha Y Norte wells in the Cosecha block in the Llanos Orientales basin, in which Repsol holds a 25% stake and Oxy, the operator, holds the remaining 75%. The Cosecha block has a surface area of 2,856 km². The third discovery was made with the Capachos Sur 1 well in the Capachos block, in which Repsol is the operator with a 100% stake.

At the beginning of 2008, a new exploration discovery was made in Libya's prolific block NC186 with well Y1. With a 32% stake, Repsol is the operator of this 4,295 km² block in the Murzuq basin.

In deep waters off the U.S. Gulf of Mexico, a major oil discovery was made in early 2009 at the Buckskin prospect in Keathley Canyon, 300 kilometres offshore from Houston. Repsol is the operator in the exploration work at this new field where a 100-metre hydrocarbon column has been discovered that could be even higher at the top of the structure. The new well is 10,000 metres deep in 2,000 metres of water.

Production

Repsol's oil and gas production in 2008 was 333,721 barrels of oil equivalent per day (boepd), 14.6% less than in 2007. Excluding contractual variations in Dubai (5,000 boepd), Venezuela (2,300 boepd) and Bolivia (47,700 boepd), production was similar year-on-year. Production increased, particularly in the United States (1,200 boepd), thanks to the start of production of the new wells in the Shenzi field; in Trinidad and Tobago (3,800 boepd); and in Peru (1,900 boepd), where the Pagoreni field in block 56 started production.

Investments

The investments of the Upstream business in 2008 amounted to €1,184 million, 18% less than the €1,439 invested in 2007. These expenditures were mainly earmarked for the development of the Shenzi field, in the United States, and in exploration activities in North Africa, Brazil, and the Gulf of Mexico.

2.2

Liquefied Natural Gas (LNG)

Results

Operating income in the LNG activity in 2008 was €125 million versus €107 million a year earlier, up 17%. EBITDA was €173 million in comparison with €146 million posted in 2007.

Prices for the principal commodities were higher in the first half of 2008, and then started to decline in the second half of the year. Throughout 2007 and the first part of 2008, natural gas prices were higher in all markets on the back of record oil prices, growing demand in new and in established markets, and significant delays in investments. Despite steep prices during this period, demand in large importing markets, such as Spain and Asian countries, did not decline, showing a sharp upward trend in the first half of the year. In the second half of the year, however, the global financial crisis and shrinking demand contributed to reversing this trend, with prices falling back to the levels of recent years.

In the first half of 2008, the average price of Henry Hub, the primary natural gas benchmark, was 10.1 \$/MBtu, 36.5% higher than in the same year-ago period. The average for the full-year was lower, 8.9 \$/MBtu, 25.3% more than in previous year. In addition to the high prices during the first half of the year, Asian markets, unlike the European and North American markets, were paying a premium on top of oil-product prices throughout 2008. As a consequence of this, the industry diverted shipments from the Pacific and Atlantic basins to this market since it was more profitable.

With regards to the power generation market, the average Spanish electricity pool price in 2008 was 64.4 €/MWh, 63.9% higher than in 2007. This increase is attributable to, among other factors, greater demand, higher international commodity prices, and the higher cost of CO₂ emission rights. The trading volume in the Spanish electricity system daily market was much higher: 232 TWh in 2008 vs. 200 TWh in 2007.

Results of the businesses comprising the LNG area are generally in U.S. dollars. The year-on-year 7.4% depreciation of this currency against the euro had a negative impact on 2008 earnings.

Projects

In the LNG area, Repsol has been developing a policy to bolster its competitive position in this business, key to its medium and long term growth.

Repsol is present in the Trinidad and Tobago integrated LNG project, in which it participates jointly with BP and BG, and other companies, in the Atlantic LNG liquefaction plant. The strategic geographical location of this plant enables it to supply markets in the Atlantic Basin (Europe, United States, and the Caribbean) at very advantageous economic conditions.

This plant has four liquefaction trains with a combined capacity of 15 million tons a year. Repsol holds a 20% stake in train 1, 25% in trains 2 and 3, and 22.22% in train 4. Production capacity of train 4, one of the largest in the world, is 5.4 million tons per year. In addition to its participation in the liquefaction trains, Repsol is a leading player in gas supply and one of the main buyers of LNG (approximately 3.2 million tons per year).

Repsol, in a partnership with Irving Oil, holds a stake in the Canaport project for the construction and operations of the first LNG regasification plant on Canada's eastern shore. Located in Saint John (New Brunswick) and with an initial send-out capacity of 10 bcm/year (1,000 million cubic feet per day, which could be expanded to 2,000 million cubic feet per day), the Canaport terminal is one of the largest in North America and will supply markets on the eastern coast of Canada and north-eastern United States. Holding a 75% stake, Repsol will operate the plant and supply the LNG that will feed the terminal, and will be entitled to the entire regasification capacity. This plant is scheduled to start operations in the first half 2009.

Construction work at the plant in 2008 went as scheduled. The onshore part of the project for the two tanks contemplated in the initial project is 92% complete.

Work on the third tank, which was approved subsequently by the consortium and which will make it possible to receive supplies from the largest methane tankers built to date, is 72% complete. Construction of the offshore terminal is practically finished. In addition, the New Brunswick (Canada) and Maine (United States) gas pipelines are ready to transport natural gas delivered to the Canaport plant to markets in the north-eastern part of North America.

In 2008, Repsol began marketing activities in New England and in other parts of north-eastern United States. These markets will grow significantly in 2009 after the Canaport terminal starts operations. Gas from Repsol's exploration and production activities in the Gulf of Mexico will also be marketed.

In Peru, the integrated liquefied natural gas project, Peru LNG, is currently being developed. Together with the Canaport project, Peru LNG is one of the major initiatives envisioned in the Strategic Plan 2008-2012 and a key project for the Company's growth. Since 2005, Repsol has been involved in this project, in which it holds a 20% stake, in partnership with Hunt Oil (50%), SK (20%), and Marubeni (10%).

The Peru LNG project contemplates the construction and operation of a liquefaction plant in Pampa Melchorita, in which Repsol holds a 20% interest, and a gas pipeline linking up with the existing one in Ayacucho. The Camisea consortium, in which Repsol also has a stake, will deliver natural gas supplies to this plant.

Additionally, the project contemplates Repsol's exclusive marketing of the liquefaction plant's entire production, estimated at more than 4.5 million tons per year. The term of the gas purchase agreement entered into with Peru LNG is 18 years as of the start of commercial operations. In terms of volume, it is the largest LNG acquisition ever made by Repsol.

In September 2007, Repsol won a contract in an international tender sponsored by Comisión Federal de Electricidad (CFE) for the supply of LNG to the natural gas terminal in the port of Manzanillo on Mexico's Pacific coast. The contract contemplates the supply of more than 67 bcm of LNG to the Mexican plant over a 15-year period. The Manzanillo plant, which will deliver gas to CFE's power plants in the central-western part of Mexico, will be fed with gas from the LNG Peru project.

At year-end 2008, construction work on the onshore part of the liquefaction plant was 68% complete, after advancing 41% over the course of the year. The offshore installations were 72% complete, and the gas pipeline 62% complete. This plant is expected to start operations in mid-2010. The finance agreements for this project were established in December 2007 and concluded on 26 June 2008. The first financing instalment was made in November 2008.

In Spain, Repsol holds a 25% stake in Bahía Bizkaia Gas, S.L. (BBG). This company owns a regasification plant with unloading facilities for methane tankers of up to 140,000 m³, two 150,000 m³ LNG storage tanks, and a vaporisation capacity of 800,000 Nm³/hour. BBG is the operator of this plant which has a regasification capacity of 7 bcma, is part of the Spanish gas system, and is remunerated by Comisión Nacional de la Energía (CNE) by means of tariffs, tolls, and fees. The terminal, located in the Bilbao harbour, has another three partners (BP, EVE, and Iberdrola) each holding a 25% stake. The enlargement of this facility is currently being appraised. This would involve the construction of a third tank, also with 150,000 m³ capacity, and the addition of another 400,000 Nm³/hour regasification capacity. In 2008, the regasification plant had an availability rate of 96% and a load factor of more than 68%, both parameters higher than in 2007 and the average in Spain, where the average load factor is 52%.

Repsol also holds a 25% stake in Bahía de Bizkaia Electricidad, S.L. (BBE), a company which owns a combined cycle power plant with 800 MWe installed capacity. The plant uses natural gas delivered by BBG as its main feedstock. Electricity generated at this plant is fed to the grid for residential, commercial, and industrial consumption. Situated in the Bilbao harbour, this facility has the same partners as BBG. In 2008, the availability rate of the plant was 97% and the load factor more than 66%, both parameters higher than in 2007.

In Iran, Repsol and Shell, jointly with NIOC, continued to work on the integrated Persian LNG project. The final investment decision on the liquefaction plant has not been taken yet.

In December 2007 Repsol and Gas Natural executed a shareholders' agreement with Sonangol Gas Natural (SONAGAS) with the aim of starting work on developing an integrated gas project in Angola. This initiative involves the appraisal of gas reserves to determine the investments that would be required for their development and, if such is the case, export these reserves in the form of liquefied natural gas. The service contract and the law decree for the concession of the areas of interest, approved by Angola's Council of Ministers in July 2008, are pending ratification by the National Assembly. Seismic tests and other procedures were carried out in 2008 and the plans are to drill a well in 2009.

LNG transport and marketing

The Repsol-Gas Natural LNG (Stream) 50-50% joint venture is one of the leading LNG marketing and transport companies in the world and one of the most important operators in the Atlantic Basin. One of the missions of this company is the optimization of both partners' fleet, which comprises a total of 11 methane tankers. In 2008, Repsol, with management support from Stream, marketed 4.7 bcm of LNG and managed 65 cargoes, most of which were from Trinidad and Tobago with Spain as the main destination.

At year-end 2008, Repsol had three methane tankers under time charter agreements, with a total capacity of 416,700 m³. The company also had another fourth tanker, the Sestao-Knutsen, which can carry up to 138,000 m³ of gas and belongs 50-50% to Repsol and Gas Natural. In the beginning of the second half of 2009, the fleet will be increased with the addition of the new Ibérica Knutsen Tanker, which Repsol and Gas Natural will share on a 50-50% basis.

Additionally, in early 2007, Repsol executed time charter agreements for four new LNG transport vessels, one from Naviera Elcano and three from Knutsen OAS. The four vessels, featuring the latest technology, scheduled to start operations in 2010, will have a nominal capacity of 173,000 m³ of LNG. The vessels will be used mainly for transporting supplies associated with the Repsol and Peru LNG agreement.

Investments

Investments in the LNG business in 2008 totalled €242 million, 37% less than the €387 million invested in 2007. These investments were mainly applied in the construction of the Canaport regasification plant (Canada) and the Peru LNG liquefaction project. This last project was financed with capital contributions from the partners until November 2008, at which time the first external financing disbursement was made.

OPERATING HIGHLIGHTS	2006	2007	2008	% variation 2008/2007
Net LNG production (*) (Bcma)				
Trinidad and Tobago	3.0	3.3	3.5	4.7
(*) Equity gas: does not include the LNG production of companies carried by the equity method in the consolidated Group accounts.				
LNG Marketing				
Cargoes (number)	42	66	65	(1)
Volume sold (Bcma)	3.2	4.5	4.7	4.2

Conversion factor: 1 Bcma = 39.68 TBtu.

2.3

Downstream (Refining, Marketing, LPG, and Chemicals)

Results

Operating income in the Downstream business was €1,111 million, down 49.6% in comparison with €2,204 million in 2007. The following factors were behind this drop:

- 329 million less in non-recurrent income, most of which is explained by the capital gains (€315 million) realised on the sale of a 10% stake in CLH booked in 2007.
- Inventory losses (€495 million) in relation to raw materials and products in comparison with inventory gains recorded in 2007 (€234 million).
- Lower income in the Chemical business (€352 million) in comparison with 2007 (€100 million). This drop was principally the outcome of lower sales (16.4%) due to shrinking demand and reduced inventories in the transformation and distribution chain; and narrower margins, affected by high naphtha prices in the first half of the year and by the sale and depreciation of stocks in the second half of the year.

Excluding the impact on earnings of non-recurring items and inventory valuations in the last two fiscal years, the drop would have been 2.1%, from €1,656 million in 2007 to €1,622 million in 2008.

If the contribution of the chemical business in both years is excluded, income would have increased by 22.7%, from €1,565 million in 2007 to €1,920 million in 2008, underscoring the positive performance of the other Downstream activities (Refining, Marketing, LPG and Trading) compared to 2007 (on a like-for-like basis, excluding the impact of non-recurrent items and inventories).

Refining

The capacity of Repsol's five refineries in Spain (Cartagena, A Coruña, Petronor, Puertollano, and Tarragona) increased by 30,000 barrels per day in 2008 thanks to the investments made to boost capacity. This has made it possible for installed capacity in Spain to increase from 740,000 to 770,000 barrels per day. Installed capacity at La Pampilla refinery (Peru) in which Repsol holds a 51.03% stake and is the operator, is 102,000 barrels per day.

In 2008, Repsol sold its stake (31.13%) in the Brazilian Maguinhos refinery, maintaining its holding (30%) in the Refap refinery, also in Brazil.

In 2008, Repsol refineries in the Downstream division processed 39 million tons of oil, slightly less than the figure in 2007.

The refining margin in Spain in 2008 was 7.4 \$/bbl, 15% higher year-on-year, as a result of the strength of medium distillates and fuel oil and despite weaker gasoline performance. The higher dollar/euro exchange curtailed this improvement and, consequently, the euro/barrel margin in 2008 was quite similar to the one in 2007.

The new European specifications for locomotive gasoline and diesel fuel came into force on 1 January 2009. These new specifications reduce sulphur content from 50 ppm to 10 ppm.

Repsol's Spanish refineries completed the necessary investments and are prepared to manufacture according to these new specifications.

With the aim of bolstering its leadership in Spain, Repsol is currently implementing an ambitious investment plan to increase refining capacity and conversion, while also enhancing safety, the environment, and the efficiency of its facilities. The projects for enlarging the Cartagena refinery and for conversion at the Petronor refinery in Bilbao are key aspects of this plan. Progress was made in 2008 towards developing these projects according to plan.

**Cartagena:
a wealth and employment
generating project**

The enlargement of the Cartagena refinery is a key initiative of the Strategic Plan 2008-2012. The €3,262 million investment will make this one of the most modern facilities of its kind in the World and will double its capacity to 220,000 barrels/day. A hydrocracker, a coker, atmospheric and vacuum distillation units, and desulphurisation and hydrogen plants are among the main units contemplated in this Project.

In 2008, the necessary administrative permits for the enlargement project were secured. The local community and regional governments are in favour of this initiative which will boost growth in the region of Murcia. About 1,000 people are already working on the project expected to be completed in 2011, with all the work in preparing the land completed according to the timetable. This project makes it possible to maximise the production of clean fuels for the transport segment and will employ more than 6,000 during the construction phase. Nearly 700 jobs will be created once the project comes on stream. More than 50% of the products to be manufactured at this facility will be medium distillates, significantly contributing to address the shortage of these products in Spain.

Marketing

Repsol markets its oil products through a large network of service stations under a multi-brand strategy; Repsol, Campsa, and Petronor in Spain, and Repsol in other countries where the Downstream business operates. In addition, marketing activity includes other sales channels and the marketing of a wide range of products such as lubricants, asphalt, coke, and derivatives.

Total oil product sales (excluding LPG) amounted to 42.86 million tons, 7.7% less than in the previous year. This drop was due to weaker demand and to the disposal of the marketing business in Ecuador and Brazil and the sale of marketing activities in Chile in 2007. Sales in Europe were down 2.4% and 29.3% in the rest of the world. With regards to sales to the Company's network, light product sales in Spain fell 5.8% because of shrinking demand, and in other countries, sales were 22.7% lower mainly because of the above-mentioned divestments.

At year-end 2008, Repsol had a network of 4,399 service stations in countries where the Downstream business operates. The network in Spain consisted of 3,590 sales outlets, of which, 75% had a strong concessionary link to the network, and 946 were company-owned and operated. Service stations in other countries were located in Portugal (441), Italy (133), and Peru (235).

In June 2008, as part of its non-core asset divestment strategy, Repsol sold its liquid fuel marketing business in Ecuador to Primax for US\$ 47 million. The sale included the 123 service station network, and the industrial sales business, commercial and logistics infrastructure, and the aviation and lubricant activities.

Along these lines, in December 2008, Repsol sold its liquid fuel marketing business in Brazil for US\$ 55 million to the Brazilian AleSat Group. The sale agreement included the 327 service station network, in addition to the commercial and logistics infrastructure, convenience stores, direct sales, and asphalt.

Throughout 2008, Repsol continued with its policy aimed at improving service quality, particularly in company-owned and operated service stations. By the end of the year, 243 facilities had been adapted to the Sprint store concept, with more than 60m² of commercial floor space, more than 1,300 product references, and annual sales per store of over €300,000.

Customer loyalty programs, through the use of specific cards, are an essential part of Repsol's marketing strategy. At the end of 2007, the company launched a new card, Solred MÁXIMA, offering clients 5% discounts on all services and products at the shops, and a 1% discount on fuel. This card can also be used for payment at repair shops, motorways, and offers many other advantages. Solred MÁXIMA is accepted at more than 4,000 Repsol, Campsa, and Petronor service stations in Spain and Portugal.

Respect for the environment is part of company's policy and strategy, focusing all efforts in developing environmentally-friendly and advanced technology products. Repsol sells a wide range of latest generation fuels that comply with the strictest quality standards: Eftec 95 and 98 petrol, Diesel e+, and Diesel e +10.

In keeping with its commitment to the community, Repsol continued to promote projects for the integration of those with different capabilities, 230 of whom were employed by the Marketing division at the end of 2008, more than 3% of its workforce.

Liquefied Petroleum Gas (LPG)

Repsol is one of the leading retail distributors of LPG in the world and ranks first in Spain and Latin America. The company operates in ten countries in Europe, North Africa, and Latin America.

LPG sales in 2008 totalled 3.22 million tons, 5.3% down year-on-year. In Peru, LPG sales were 93% up on the back of market growth. Sales in Spain fell 1.9% compared to the previous year.

Repsol distributes bottled, bulk, and piped LPG in Spain through collective distribution networks and has more than 10 million bottled LPG customers supplied through a network of 522 distribution agencies. Bulk LPG sales accounted for 39% of total retail LPG sales in 2008.

To strengthen its leadership in the Spanish market, improve service quality, and guarantee supply, the company implemented a factory efficiency plan for the 2007-2009 period.

In Portugal, Repsol distributes bottled and bulk LPG to end customers and supplies other operators. Sales in 2008 reached 184.199 tons, making the company the third operator with a 21% market share.

In Latin America, Repsol is the leading LPG distributor in Argentina, Ecuador, Peru, and Chile. It markets bottled and bulk LPG in Argentina to the residential, commercial, and industrial segments, with sales totalling 325,836 tons.

In November 2008, the company sold its 51% stake in Repsol YPF Gas de Bolivia S.A., abandoning the bottling and bulk marketing activities in this country.

OPERATING HIGHLIGHTS (REFINING, MARKETING, AND LPG)

	2007	2008 ⁽¹⁾	% variation 2008/2007
Feedstock processed Million tons			
Crude	40.1	39	(2.7)
Other loads and raw materials	6.5	5.1	(20.8)
TOTAL	46.6	44.1	(5.2)
Producción Thousand tons			
Medium distillates	20,906	19,994	(4.4)
Gasoline	7,820	7,235	(7.5)
Fuel Oil	7,337	7,308	(0.4)
LPG	1,017	1,013	(0.4)
Asphalts	1,741	1,558	(10.5)
Lubricants	249	212	(14.8)
Other (exc. petrochemicals)	1,627	1,674	2.9
TOTAL	40,696	38,995	(4.2)
Oil product sales Thousand tons			
Diesel/ Kerosene	25,853	23,723	(8.2)
Gasoline	7,757	6,775	(12.7)
Fuel Oil	7,397	7,234	(2.2)
LPG	3,405	3,223	(5.3)
Other	5,448	5,130	(5.8)
TOTAL	49,860	46,085	(7.6)
Sales by regions Thousand tons			
Europe	39,156	38,183	(2.5)
Rest of the world	10,704	7,902	(26.2)
TOTAL	49,860	46,085	(7.6)

(1) Refab not included as of July

Chemicals

The Chemicals activity, part of the Downstream business, incurred an operating loss of €352 million compared to an operating profit of €100 million a year earlier. This was principally the outcome of lower sales because of shrinking global demand and reduced inventories in the entire transformation and distribution chain, as well as narrower margins due to high naphtha prices in the first half of the year, and inventory depreciation in the second half of the year.

Sales to third parties in 2008 were 2.60 million tons, 16.4% less than the 3.11 million tons sold in 2007.

The project for the enlargement of the Sines (Portugal) complex, which aims to double output and increase competitiveness through greater integration and energy efficiency, was approved in June 2008. The project contemplates three new plants – lineal polyethylene, polypropylene, and cogeneration – in addition to enlarging cracker capacity by more than 570,000 tons/year. The new linear polyethylene and polypropylene plants will be very competitive thanks to their size and latest generation technology.

OPERATING HIGHLIGHTS (CHEMICALS)	2007	2008	2008/2007
Thousand tons			% variation
Capacity			
Base petrochemicals	2,664	2,679	0.6
Derivative petrochemicals	2,937	2,927	(0.3)
TOTAL	5,601	5,606	0.1
Sales by product			
Base petrochemicals	772	629	(18.6)
Derivative petrochemicals	2,341	1,973	(15.7)
TOTAL	3,113	2,602	(16.4)
Ventas por mercados			
Europe	2,776	2,348	(15.4)
Rest of the world	337	254	(24.6)
TOTAL	3,113	2,602	(16.4)

Investments

Investments in Downstream increased 64%, totalling €1,534 million versus €936 million the year before. Most of this amount was spent on ongoing refining projects, particularly in Spain, upgrading operations, installations, and fuel quality, and on safety and the environment.

2.4

YPF

YPF posted €1,159 million in operating income in 2008, 5.6% less than in 2007. This drop was due to the international crisis, which intensified in the last few months of the year and triggered a drop in demand in the Argentinean market, and a reduction in exports.

On 21 February 2008, Repsol concluded the sale of a 14.9% stake in YPF to the Petersen Group for US\$ 2,235 million. This transaction, which values YPF at US\$ 15 billion, obeys the company's strategy of improving the geographical distribution of its assets and of implementing a global management approach with a local accent. The agreement also contemplates that the Petersen Group can increase its YPF holding to 25% through call options for an additional 10.1%. The Petersen Group already exercised an option for an additional 0.1% stake.

In 2008, YPF investments were €1,508 million compared to €1,374 million a year before. Nearly 80% of these expenditures were earmarked for oil and gas development and exploration projects, including the agreement for extending the concession in the Neuquén province.

Average annual production fell 3% to 617,100 barrels of oil equivalent per day (boepd) versus 636,400 boepd in 2007. Output was affected by labour strikes in Santa Cruz, without which, average annual production would have reached 628,300 boepd.

Operating costs increased in 2008, mainly because of taxes which increased from €179 million to €685 million in 2008 because of withholdings, depreciation, purchases from third-parties, environmental and legal contingencies, and severance pay, and compensation.

International prices were higher year-on-year, falling sharply, however, in the last quarter of 2008. These higher prices had an impact on the domestic and foreign markets, although in relation to the latter, this was curtailed by withholdings, which were higher than in 2007 following the implementation of Resolution 394 that affects oil and oil product exports, and Resolution 127, which affects natural gas and liquefied natural gas.

Demand fell in 2008, except for gasoline for the domestic market, mainly because of the international crisis and other factors, such as the farmers' strike and the drought.

In the internal market, the company collaborated with the Government of Argentina on the Total Energy Plan (PET), participating in the programs relating to diesel supply and the substitution of natural gas for liquid fuels.

The contribution from YPF associates was lower than in the previous years because of the following factors:

- Mega was affected by the impact of the resolutions on gasoline and LPG export prices and by lower ethane prices.
- The drop in the price of urea in the last quarter, which had an impact on Profertil's retail prices and diminished the value of its stocks.
- Refinor posted lower income because of the application of Resolution 394 which affected the price of its exports.
- YPF Holding's earnings were affected by higher provisions for environmental contingencies, although this was partly offset by the start of production of Neptuno.

Operating income in YPF's Exploration and Production business was €441 million, 55% down year-on-year due to higher costs in the industry, the effect of regulated oil prices in the Argentinean market and strikes.

In 2008, YPF's oil and gas production was 226 million barrels of oil equivalent, 4.9% less than in 2007, of which 114 million were liquids and gas accounting for the remainder. Strikes and weaker demand for gas in the third part of the year diminished output by 4.8 million boe.

YPF made five oil discoveries and one gas find in 2008 out of the 17 wells that were drilled. Of the six wells that yielded positive results, four are in the Neuquén basin (El Orejano x-1, Borde Sur del Payún e-4, Puesto Cacho x-1, and Los Reyes Norte x-1), the fifth one is in the Austral basin (Las Flechas x-2001), and the sixth one in Golfo de San Jorge (El Balcón x-1). The amount of total investments in exploration was €122 million.

Seismic activity was concentrated in the Río Barrancas block in Neuquén province, and also in the Tamberías block in the province of San Juan. The provinces did not organize any bidding rounds for new mining acreage in 2008.

Regarding field development activities, 612 development wells were drilled, which, jointly with secondary, repair, and infrastructure activities involved an investment of €868 million.

As part of the global €1,215 million investment plan, €55 million were spent in revitalizing mature fields according to the Plan de Desarrollo de Activos (Asset Development Plan, PLADA). Launched in 2007, this initiative is part of the company's strategy aimed at becoming the leader in the exploitation of mature fields and basins. The objective is to define comprehensive development and revitalizing plans for all YPF fields based on current technology and focusing efforts on acquiring greater knowledge of the subsoil. Supported by a portfolio of 1,400 defined projects and generating more than 1.6 billion barrels of oil to date, the PLADA plan augurs a 10-year stable outlook for oil production and activity.

Thanks to the work carried out in recent years within the framework of PLADA, YPF was able to incorporate proved reserves totalling 75 million barrels of oil equivalent in 2008, mostly oil. In addition, for the first time ever it was possible to achieve a 120% oil replacement rate in Chubut and Santa Cruz, situated in the southern basin of Argentina.

The results obtained in mature fields, such as Perales, Barranca Baya, and Manantiales Berth, are worth mentioning. Together with the activity in the Maurek area and in the Cañadon Yatel field, in particular, enabled the incorporation of reserves in this region.

Pilot tests were conducted in the Neuquén basin to assess the technical and economic viability of developing tight gas fields. The results of these studies are currently pending.

The 10-year extension (2017-2027) of the concessions in Neuquén province is also worth mentioning. Jointly with the extension of Loma la Lata in 2002, 50% of YPF's reserves concessions in Argentina have been extended.

Another milestone was the Ibero-American Quality Gold Prize in the category of "Medium Private Company" awarded by the panel of judges to Mega.

YPF's natural gas sales in 2008 totalled 16.4 billion m³, growing particularly in the distribution, industry, and manufacturing segments. YPF's market share in this Argentinean market was 40% and the average price of natural gas sold by the company climbed 32% in 2008, enabling the gradual alignment of prices in the domestic market.

The first liquefied natural gas (LNG) regasification operations began in June 2008 at the Bahía Blanca harbour with the Excelsior regasification tanker contracted for this purpose to meet the country's demand. This project was carried out for the Argentinean Government and was completed successfully in record time, incorporating an average 5.5 m³/day in the winter season. This operation, the transfer from vessel to vessel, from the Excelsior to the Excelerate, was the first of its kind in the world.

Additionally, within the framework of the program for supporting the Government of Argentina, in the winter of 2008 YPF built the largest propane-air plant in Buenos Aires, the largest in the world. The plant, with a supply capacity of 1.5 million m³/day, will be used to meet peak winter demand in Argentina's capital.

In the Refining, Logistics, and Marketing activity, YPF refineries processed 18.7 million m³ of oil, 1% less than in 2007.

The utilization rate of refining installed capacity throughout 2008 remained stable thanks to the operating reliability plans underway which make it possible to extend the maintenance cycles of the units, increasing effective processing capacity and enabling the maximum use of assets to meet growing fuel demand in Argentina.

Gasoline production for the domestic market was 3 million m³, 14% higher than in 2007 and a new record in recent years. This also implied an improvement in the quality of gasoline production and made it possible to meet increasing demand in the Argentinean market.

YPF completed the upgrading of the catalytic cracker (FCCB) at the La Plata refinery, contributing to increasing the production of medium distillates and gasoline and setting a new record in diesel and Jet A1 aviation fuel production at this facility, reaching an average of 13,625 m³/day. For the second consecutive month and for the fourth time in its history, the refinery beat the 400,000 m³/month record in medium distillate production.

At 2 million cubic metres, fuel oil production was 5% higher year-on-year. Domestic demand from the manufacturing sector remained stable and the Total Energy Plan (PET) requisites were met, delivering more than 290,000 m³ of fuel oil.

The chartered fleet for sea and river transport was renewed with the incorporation of two double-hull new vessels and one barge. The newly-built María Victoria and Caleta Rosario vessels, as well as the Argentina V barge, comply with the latest safety standards as required by the Group. A sixth barge is under construction and is scheduled for launch in 2009.

Throughout 2008, YPF's liquid fuel supply was in line with the growth recorded in Argentina, ensuring permanent and high quality supply to all its clients. This supply, particularly fuel oil, a key consumable for supporting growth, was made from the company's refineries, or was imported to meet the exceptional levels of demand.

At the end of 2008, YPF had 1,642 service stations, 166 of which were company-managed. The company began to revamp the image of its sales outlets, seeking a more modern image and bringing it line with the slogan "Let's invent the future".

Prices in the domestic market gradually adapted to international prices and those of bordering countries. Diesel prices increased approximately 23% and super gasoline prices were 37% higher.

At the close of 2008, YPF unveiled a new fuel, YPF D. Eurodiesel, the first low sulphur fuel (less than 50 ppm) launched by the company, which is recommended for all high-performance EURO IV engines.

The Refining, Logistics, and Marketing business posted €743 million operating income in 2008. Investments in this area totalled €167 million.

With regards to YPF's chemicals business, income was up 20%, reaching an all-time-high of €158 million thanks to wider margins in all lines and the integration of the refining, exploration, and production activities. This was achieved despite the drop in international prices in fourth quarter 2008 and declining demand for fertilizers because of the farmers' strike in Argentina. Enhanced earnings performance was shored up by high international prices in the

first three quarters of the year, the implementation of a cost savings and expense-curtailement plan, and a policy aligned to prices in the local market which bolstered the Argentinean industry's growth. Investments in the year amounted to €25 million.

In 2008, the subsidiary Profértil won the National Quality Prize in the large company category, also renewing the customs duty exemption for methanol exported to the United States.

YPF's workforce at the end of 2008 comprised 11,038 employees, 1.3% less than in the previous year. The Exploration and Production division hired 271 employees, 16% more than in 2007. At Astra Evangelista (AESA), the headcount was cut by 540 workers.

The Repsol YPF Group started to implement a teleworking pilot project. In Argentina, the project was launched with the collaboration of the Ministry of Labour. YPF is the first company in the country to implement this new work arrangement, adopted by several of its employees, and winner of the Meta 4 Prize for Innovation in Human Resources.

Three labour agreements govern the working conditions of YPF's refinery, field, service, station and LNG employees. In 2008, several salary agreements were executed with labour union representatives.

Regarding Research and Development (R+D), in the context of PLADA, YPF began to assess and develop technologies for the exploitation of heavy oil fields, for improving the recovery factor at mature fields, and for recycling water used in production processes for irrigation and other purposes. The Chemicals business unveiled a new fertilizer made with liquid sulphur generated by the hydrocarbons processed at the refinery. As to environmental issues, the company continued to develop soil recovery technologies.

2.5

Gas Natural SDG

Gas Natural SDG's operating income increased 7.6% to €555 million. This growth was largely the result of the positive performance of the power business in Spain on the back of higher electricity pool prices, the incorporation of the Mexican power business in 2008, and growth in distribution activities in Latin America.

At €894 million, investments increased 37% in 2008 mainly because of the financial investment required for the acquisition of a percentage stake in Unión Fenosa.

Through its 30.9% stake in Gas Natural SDG, Repsol participates in the entire gas value chain, from supply, to distribution, and marketing.

Through the Repsol-Gas Natural LNG (Stream) joint venture, the company was the world's third-ranking company in terms of transported LNG volumes. Founded in 2005, the objective of this company is to maximise the value of its partners' agreements through efficient management and marketing, also facilitating access to LNG supply sources and strategic markets.

Gas distribution in Spain contributed 34.6% of Gas Natural's results, with sales to the regulated market amounting to 270,073 GWh. The total number of supply points increased to 5,842,000 and the gas pipeline network grew 6.9% to 48,578 kilometres. Sales in Latin America climbed 16.2% to 208,408 GWh and the number of supply points reached 5,253,000. The distribution network increased 2.8% to 61,196 kilometres.

In 2008, Gas Natural SDG consolidated its presence in the Italian market with the acquisition, worth €30 million, of the Pitta Costruzioni Group which operates in the Puglia region in southern Italy. This acquisition, jointly with the incorporation of Italmeco at the end of 2007, will allow Gas Natural SDG to increase its distribution area in Italy, which now comprises 187 cities and towns in eight regions: Molise, Abruzzo, Puglia, Calabria, Sicily, Basilicata, Campania, and Lazio. In 2008, gas sales in Italy reached 2,933 GWh, there were 397,000 supply points, and the distribution network stretched over 5,521 kilometres.

In the power business, the company operates a total 6,495 MW of installed electricity generation capacity in Spain, Puerto Rico, and Mexico.

In Spain, Gas Natural SDG has 3,600 MW in combined cycle power generation plants. A group of 400 MW is currently in the construction phase in Malaga and another two, totalling 800 MW, in Barcelona's harbour. In addition, two 400 MW groups in Lantarón (Álava) are currently in the processing stage. In generation, the total of combined cycle plants jointly with installed cogeneration capacity and wind generators produced 18,130 GWh at year-end 2008, that is, 6.8% more than in the previous year.

Petroleum Oil & Gas Spain (100% held by Gas Natural) is participating, jointly with Repsol, in the offshore well to be drilled in 2009 at the Montanazo concession off the coast of Tarragona, with preparatory work carried out in relation to this project during fourth quarter 2008.

Repsol and Gas Natural, in a consortium with other companies, have executed a shareholders' agreement to develop an integrated gas project in Angola. The company Gas Natural West Africa (60% Repsol-40% Gas Natural), which will manage this project, has been incorporated. In a first phase, an appraisal will be made of these gas reserves before making the necessary investments for development and subsequent export as LNG. Progress has been made defining the seismic exploration and drilling work that will be carried out in 2009.

With regards to the Gassi Touil project and following Sonatrach's decision in 2007 to rescind the agreement unilaterally, an arbitration process is currently ongoing in which Repsol and Gas Natural will defend their rights and which will decide on the validity of such decision and on damages for wrongful termination of the contract. The arbitration court's decision is expected to be announced in 2009.

Unión Fenosa Acquisition Process

On 30 July 2008, Gas Natural SDG reached an agreement with ACS on the acquisition of its total 45.3% stake in Unión Fenosa at an effective price of €18.33 per share, which implies a valuation of 100% of the electric utility's share capital of €16,757 million. In accordance with the terms and conditions of the agreement, in early August, Gas Natural acquired from ACS a 9.9% stake in Unión Fenosa for €1,675 million.

Under the terms and conditions of the agreement entered into with ACS, the purchase price was adjusted, deducting the €0.28 per share dividend paid by Unión Fenosa on 2 January 2008. The resulting adjusted price is €18.05 per share.

On 12 December 2008, Gas Natural acquired from Caixanova its 4.7% stake in the share capital of Unión Fenosa. At 31 December 2008 Gas Natural's ownership interest in Unión Fenosa was therefore 14.7%. After exceeding 30% voting rights in Unión Fenosa, Gas Natural must launch a bid, within one month, for the remaining shares in the electrical utility and, therefore, in September 2008 the company initiated the process for securing the corresponding permits from competent authorities.

The acquisition of Unión Fenosa marks a major step in the development of Gas Natural, fulfilling its goal of becoming the leading integrated gas and power company. This will be achieved thanks to the complementarities of both companies' activities in the entire value chain of these two business lines. This acquisition also accelerates the fulfilment of Gas Natural's Strategic Plan 2008-12.

In July 2008, Gas Natural executed an agreement with 10 banking entities for financing the acquisition of 100% of Unión Fenosa, including the stakes held by ACS and Caixanova in Unión Fenosa, as well as the subsequent tender offer. Nineteen entities will participate in the syndication process that is currently underway.

Criteria and Repsol, in order to ensure a sound and flexible financial structure, have agreed to make contributions to Gas Natural's share capital, in the necessary amount and manner, for a maximum sum of €1,903 million and €1,600 million, respectively, to ensure that the company obtains a consolidated rating immediately after settlement of the tender offer of at least BBB (stable) and Baa2 (stable) from S&P and Moody's, respectively.

Gas Natural has started the process for carrying out the contemplated rights issue for the sum of €3.5 billion in the context of the Unión Fenosa acquisition transaction. On 30 January 2009, its Board of Directors agreed to convene an Extraordinary General Meeting to authorize the issue of new shares with pre-emptive subscription rights.

3

Corporate Areas

3.1

Human Resources

At 31 December 2008, Repsol's comprised 36,302 employees working in more than 30 countries, mainly in Spain (50%) and in Argentina (33%), with employees in Portugal (4%), Brazil (2%), Peru (2%), Ecuador (2%), and Trinidad and Tobago (2%). Of these employees, 6% work in the Upstream area, 48% in Downstream, 30% in YPF, 6% in Gas Natural, and 0.5% in the LNG division. The breakdown by professional categories is: 1% executive personnel; 6% technical managers; 43% technicians; 5% administrative staff; and, 45% operators. Permanent work contracts account for 91% of the total and women represent one third of the total workforce.

Renewal of the Executive Team

In February 2008, coinciding with the presentation of the Strategic Plan 2008-2012, the Company announced the new make up of the company's executive team, 21% of whom are new members. Throughout 2008, there were 157 changes, including changes in management positions and new appointments (63). The most important traits required of executives in charge of managing the company were defined in accordance with the business requirements contemplated in the Strategic Plan. These traits are as follows:

- Global and diverse leaders, with a vision on the different functions and geographical environments; leaders who are flexible and able to adapt to the company's different needs and priorities.
- Strongly committed to achieving results.
- Excellence in people management.

Following these managerial changes, the profile of Repsol's executive team is more global and more diverse in relation to gender and nationalities (the percentage of women holding executive jobs and nationality diversity increased from 8% and 10% to 17% and 19%, respectively).

The Repsol Executive Convention was organized in May 2008 for the purpose of disseminating the new management style and for promoting the leadership of the Executive Committee and fostering a sense of pride in being part of the company. Over 250 executives from 16 countries participated in this event.

Diversity and balance

Professionals of more than 70 nationalities work at Repsol. Of these employees, some 900 work in countries other than the ones in which they were hired, comprising the group of expatriates. This is mostly the case in the Upstream business area (79%).

The company continued to work in 2008 in the analysis and implementation of new measures to encourage diversity and balance, promoted by the Diversity and Balance Committee created in 2007. This committee continued to work on an in-depth study of the objectives and core priorities in relation to this issue for the 2009-2012 period. One of the measures implemented in 2008 was the teleworking pilot project, with the participation of more than 130 people from various business areas in Spain and Argentina. The results of this initiative have been very positive and will be gradually extended to include more workers and departments.

Another initiative worth mentioning is the pilot project to provide support to employees through an external company that offers a wide range of services, from legal and financial counselling to the recruitment of domestic staff.

In addition, in the first half of 2008, the Working Day Reduction Protocol was signed. This initiative is designed for employees who work in shifts and establishes flexible measures for reducing the specific working day of these employees.

In 2008, Repsol incorporated 422 people with disabilities in its workforce (365 through direct hiring and 57 through alternative measures), increasing the percentage of personnel with disabilities to 2.29% after a more than 10% increase in the previous year. Through an advertising campaign with the slogan "At Repsol, we work towards making integration a reality", the Company made known its stance, vocation, and commitment to the social and work

integration of people with disabilities. Repsol carries out different projects to foster equality and opportunities and the social integration of all groups, particularly with respect to those who encounter greater difficulty in joining the job market.

**Repsol,
the company creating
the most jobs for the disabled**

Repsol won the *Fundación Empresa y Sociedad* Award for its active work in favour of the disabled. This award is a recognition of the best corporate actions for the integration of the disabled, always within the framework of promoting corporate competitiveness and social cohesion. Repsol was selected among 27 candidates.

The company continued to improve accessibility standards at its service stations and offices, becoming a benchmark among Spanish companies. In 2008, Repsol inaugurated the first service station where the entire staff comprises people with different capabilities.

According to the Observatorio de Empresa and Sociedad, Repsol is the company that generates the most direct jobs in absolute terms for people with different capabilities.

The company also conducted an audit on remuneration and promotion of personnel not included in the bargaining agreement in order to guarantee that this group of employees enjoys equal opportunities.

Hiring the best professionals

In 2008, an important change was made in the recruitment strategy for professionals who wish to join the company, which is based on acquiring knowledge with regards to their motivation and on the optimal use of available resources. Recruitment techniques and processes were redesigned and the concept of “brand as an employer” was introduced to encourage job marketing.

The objective of these improvements is to project Repsol's values with regards to quality jobs, seeking a closer relationship with the academic world, and promoting professional training based on various initiatives. These initiatives included: publication of the “SOY” campaign in university newspapers, stressing the company's five values in relation to jobs: career development, diversity, teamwork, global scope, and commitment to society; the redesigning and updating of Employment Channel contents, which can be accessed through the corporate web; promoting attendance in employment forums; and, the sponsorship of various seminars and reports. Repsol was included in the select group of Top Companies in which to Work.

The “Impulsa” scholarship program was launched in 2008. This program provides students in their last years of university with an offer that goes beyond in-house work experience. It provides training in languages, generic skills and competencies, and the possibility of joining the company through the New Professionals Program.

More than 1,850 people joined the company in 2008. Over 120 of these new incorporations are related to Plan de Choque, a 5-year program that aims to incorporate professionals in the Upstream area in order to meet the needs envisaged in the growth plan for this activity. In addition, 280 people joined the Refining Spain area in the Downstream division to fill the vacancies in the facilities enlargement projects and to ensure a suitable generational shift.

Talent management

With the help of the “People Review” system – a tool for identifying and developing talent in Repsol – and through 58 work sessions organized in 2008, it was possible to obtain a map of talent in each of the company's areas and to design a specific development plan to offer greater opportunities to professionals.

In keeping with the company's interest in continuing to identify, year after year, the talent of its workers, 16 sessions of the “Development Center” program were conducted in 2008. Nearly 150 professionals were evaluated in these sessions, 72% of them women, a clear example of the project's potential for detecting talent in this group.

Executive coaching was also introduced as a tool for career development. This experience was launched in the Marketing and Chemicals divisions, drafting a procedure which will be applied in other areas over the coming years. In addition, a personal interview process for employees who show great potential was also implemented in order to learn more about this group of employees.

Technical knowledge is a key factor for the growth of Repsol's activities. Towards this end, the Executive Committee decided to launch a project for the review of technical competencies, standard jobs, and training courses which will make it possible to manage technical talent in a standard and efficient fashion from a platform of common knowledge for all employees.

After identifying technical competency requirements, the defined learning “road map” will make it possible to:

- Provide orientation to employees for their development, offering a structured training plan for each stage of their career focused on acquiring critical competencies.
- Promote technical training with a wider global scope integrated and shared by the various company areas.
- Optimize planning, management, and training.

Repsol’s corporate university

The Centro Superior de Formación (CSF), Repsol’s corporate university project, was launched in the second half of 2008. This project combines all the resources earmarked for training activities in the same organizational unit and comprises the Leadership and Management School and the Technical Exploration and Production, Industrial, Marketing, and Corporate Processes Schools. The creation of this centre will contribute to optimising training investment, which, in 2008, totalled €27 million for the entire company.

Entrepreneurial spirit and excellence

The variable remuneration system for Repsol professionals, known as Management by Commitments (MxC) has been in force for three years and is part of the common language of the organization. The objective of this system is for employees to focus their efforts on achieving established targets and also for these professionals to be committed to their development and that of those reporting to them, not only assessing results objectively, but also knowing how to achieve results. It also emphasises monitoring day-to-day behaviour, promoting preferably those that the company considers essential: responsibility and results-focused, entrepreneurial spirit and excellence, cooperation, people development, and merit-based recognition.

The analysis of 2007 results showed that progress was made in merit-based differentiation, providing incentives and awarding actions that contribute to the organization’s success in the long term.

Work Climate in 2008

A follow-up survey was conducted in November 2008 with the participation of more than 8,000 company employees, to evaluate the progress made in relation to the actions outlined on the basis of the work climate study carried out in 2006. The results of this survey, with the participation of 77% of employees, showed that progress had been made in most of the identified areas subject to improvement.

Labour relations

The term of the Fourth Framework Agreement for Spain expired in 2008 without any labour conflicts taking place while it was in force. Negotiations on the Fifth Framework Agreement began in November with the creation of a bargaining roundtable and the presentation of the negotiation platforms.

The Harassment Protocol was executed in the first half of 2008. This protocol outlines the steps that must be taken in the event that any employee suffers any harassment at the workplace.

Health and safety at the workplace

Since the approval of the Management Standards for Health and Safety at the Workplace at Repsol in October 2007, the Workplace Health and Safety Technical Committee has been working on drafting a set of uniform standards on an international scale. In this context, the following procedures are worth mentioning:

- Safety and health requirements when travelling to risk countries.
- Individual health monitoring, jointly with periodical vigilance guidelines.
- The provision of medical services.
- Safety and hygiene in food preparation.

In addition, a health data and indicators procedure was approved that will contribute to improving current monitoring systems.

Innovation and Technology

Repsol considers its Research and Development (R+D) investments and activities as essential tools that enable it to have competitive technology for manufacturing the best products by means of efficient and environmentally-friendly processes that have the minimum impact on the environment, thereby fulfilling market needs and its clients' expectations. By doing this, the company's value increases to the benefit of its stakeholders, and the company behaves in a socially responsible manner.

Resources are applied in R+D programs to identify and incorporate the best commercially available technology while, at the same time, work is carried out to develop the company's own technology to enable it to achieve a stronger competitive positioning. Additionally, the company conducts research on emerging technologies that can change business outlook and constantly monitors technological areas identified as being of critical importance for the company.

The Group's technology centres in Spain (Móstoles) and Argentina (La Plata) employ 450 researchers who develop an intensive project program covering all of the company's business lines: oil and gas exploration and production, the natural gas value chain, oil refining and petrochemicals, without ignoring future diversification opportunities such as biofuels. In 2008, €74 million were invested to carry out all of these activities, plus another €6 million for projects undertaken at the business units.

Repsol collaborates with its social surroundings, aware of the increasing importance for scientific and technological development for strengthening the bonds between the company and the community. To achieve this, the company has an active collaboration policy through agreements with universities, companies, and other public and private technology centres. The 2008 budget earmarked for these types of agreements totalled more than €12 million, much higher than in recent years. The areas of cooperation spanned from preliminary viability studies for starting new projects to undertaking specific stages in R+D initiatives according to specific knowledge and/or specific facilities available at these centres. In addition, there was an increase in the company's involvement in consortiums with other companies for the pre-competitive development of new technologies.

Furthermore, Repsol participates in R+D projects sponsored by different administrations (regional, national, and European). In 2008 it took part in 24 different types of projects promoted by the Spanish Government and in seven European Union projects.

R+D projects and programs involve the entire value chain of the various business units, from exploration of new oil and gas fields, to lifting and preparation for transport, including transformation and manufacturing of products in industrial complexes and distribution to the end client. The following significant lines and actions in the various Repsol business areas are worth mentioning:

- **Upstream.** Repsol applies the most advanced technologies in the exploration of new oil and gas fields, developing new seismic processing technologies jointly with other leading companies and universities to improve the possibilities of analysing and interpreting seismic images, the first step in the oil and gas exploration process. This technology bolsters competitive advantage since it increases the possibilities of finding deepwater oil and gas reserves – a scenario that, until now, was characterised by geological formations that were complex or invisible when using traditional techniques – and significantly reduces exploration risks and associated costs.

Another of the main lines of technological development at Repsol involves improved recovery technologies for extracting more oil and gas from mature reservoirs. The company also develops and adapts technologies to enhance non-conventional hydrocarbon production, such as heavy oil and low-permeability gas resources, in addition to technologies and methodologies to improve production in offshore fields.

- **LNG.** In this business, in which Repsol is a leading international player, liquefaction technologies are being developed to use floating systems, which will make it possible to capitalise gas reserves that cannot be exploited in an economically viable manner at present.
- **Downstream.** Specialised technological support for refineries makes it possible to produce better quality gasoline and diesel fuel. By making progress in this field, Repsol can keep ahead of international regulatory requirements, consistently maximising its operating margin, ensuring compliance with environmental requirements, and promoting energy savings and efficiency. New products are being developed as part of this strategy, such as plant-based biofuels and improved performance lubricants and asphalts adapted to comply with new environmental standards.

Several fleet trials and field tests have been conducted to ensure that these new bio-products reach the market with full guarantees, including the following: a trial using a fleet of buses running on bio-diesel made with recycled frying oil; the tests performed on 200 vehicles using a biofuel with a high content of renewables (30%); field tests using a new enhanced safety oil as a biodegradable electrical transformer; and the test on a road surface using asphalt that can be spread at a low temperature that provides environmental advantages and cost savings.

As part of its commitment to research and sustainable development, Repsol has launched several innovative projects, such as the study of new crops for producing biofuels, the development of CO₂ capture systems using reusable bio-algae, biomass, products made with vegetable oils for treating crops affected by plagues, and the application of spreadable oils to treat wood to prevent attacks by xylophagous organisms..

Competition fuels developed at the Repsol Technology Centre are used in major sports competitions. In 2008, for the fourth consecutive year, Honda HRC rated Repsol's CTR-54 competition fuel the best performer compared to several others manufactured by competitors. Repsol's technology department also developed the first competition diesel fuel for Mitsubishi's new Lancer, which competed in the last Dakar race held from 3 to 18 January 2009 in Argentina and Chile. Knowledge acquired in these cutting-edge technologies is subsequently used to improve the company's products that reach end users.

In LPG, new end-to-end air-conditioning applications for the residential, tertiary, and industrial sectors are being implemented gradually. These applications, jointly with the use of autogas (LPG used to power vehicles) and in coastal fishing vessels (Peixe Verde project), open a wide range of environmentally- friendly business opportunities.

Research in petrochemicals focuses on optimising existing processes, many of which are proprietary technology, and in developing products adapted to new market requirements in increasingly competitive scenarios. It is in these types of products, particularly those for mass consumption, in which performance excellence and the balance between properties and the price of raw materials and energy required for production mark the difference in efficiency and sustainability between processes and producers.

The projects developed throughout 2008 made it possible to redesign polyol production units, increasing capacity while at the same time improving the quality of the composition and properties of these products.

More efficient procedures were defined for the production of polyolefin and alternative uses for traditional monomers were developed by introducing more efficient catalysts in the processes.

Through the involvement in Dynasol, the company continues to develop new synthetic rubber, the applications of which are very appreciated in the automotive industry and in the manufacturing of adhesives and compounds.

3.3

Safety and the Environment

For Repsol, paying attention to safety and the environment is an essential aspect in managing its activities. This principle is part of the company's strategic vision and its commitment to "contribute to sustainable development and improvement of the social environment, and to respect human rights, the environment, and safety". This commitment is complemented by the following ethical value: "we demand a high degree of safety in processes, facilities, and services, stressing the protection of employees, contractors, customers, and the local surroundings, and we convey this principle to the entire organization".

These are the commitments and values underpinning Repsol's Safety, Health, and the Environment Policy that, through the management system, applies to all the company's activities. Its main support is the Safety and Environment Manual, which is supplemented by a large set of standards, procedures, and technical guides, constantly updated to adapt them to the best practices in the industry.

The most important actions carried out recently to improve safety and the protection and conservation of the environment and the evolution of the most relevant indicators are detailed in the Repsol 2008 Corporate Responsibility Report and on its website (www.repsol.com).

Safety

Repsol's objective is to have accident-free operations. To achieve this, management improvement measures and investments are defined each year to maintain the facilities in accordance with the best standards in the sector. To improve safety, the management system is constantly being evaluated.

The rate of accidents at Repsol decreased once again in 2008. The frequency of time lost due to accidents affecting integrated personnel (company employees plus contractors), fell 25% in comparison with the previous year, thereby meeting the annual target and making progress in achieving the strategic goals defined by the company for 2012.

Unfortunately, however, despite all the steps taken and the progress made in this respect, nine fatal accidents occurred, with eleven deaths, three of whom were company employees and eight were employed by contractors. Five of these deaths occurred in road accidents.

Environment

In compliance with Repsol's strategic lines, protection and conservation of the environment are key elements in the company's activities. Significant environmental investments were made in 2008. Key among these, as in previous years, were the improvements achieved in the refining business to meet environmental oil product quality standards. Also significant were the measures implemented to minimise emissions to air, the optimisation of water consumption, the reduction of contamination in landfills, proper management of waste, and the improvement of systems to prevent spillages based on the best available practices and technological innovation. Great efforts were made in identifying, assessing, and addressing possible contamination episodes in the past.

Note 39 of the Repsol YPF Group Consolidated Annual Report provides detailed information on the assets, expenses and investments, contingencies, provisions, and future actions in relation to the environment.

Climate Change

In 2008, the European Commission, under the French presidency, approved a package of measures to fight climate change and promote renewable energies. The document establishes a 20% greenhouse gas reduction target by 2020 and an increase in the use of renewable energies. European Union committees will be meeting in 2009 to define the specific measures to be implemented in order to fulfil these targets.

Additionally, the parties to the United Nations Framework Convention on Climate Change, meeting in Poznan (Poland), in December 2008, reached agreements on the Kyoto Protocol Adaptation Fund and on the transparency measures for handling Clean Development Mechanisms (CDM) projects. The countries included in Annex I of the Kyoto Protocol tried to advance in the negotiations on the commitments to reduce greenhouse gas emissions and those not included in Annex I on the possibility of including carbon dioxide capture and storage as part of the CDMs and also sought clarification on the rules for technology transfer. At the major gathering to be held at the end of 2009 in Copenhagen (Denmark), the parties will seek to conclude these actions.

At the in-house level, Repsol continued in 2008 to implement its Carbon Plan in all the business lines that produce greenhouse gas (GHG) emissions, principally by seeking emission reduction opportunities, assessing its viability as a CDM project, the improvement of GHG inventories, and investment in Carbon Funds.

In 2005, Repsol outlined its objective of reducing emissions by one million tons of CO₂ equivalent over the 2005-2012 period in respect of a business as usual scenario. Thanks to the efficiency measures implemented in recent years, the company was able to meet this target in 2008. Consequently, Repsol has revised this target and has set a more ambitious goal: an additional 1.5 million ton reduction of CO₂ equivalent during the 2009-2013 in respect of the business as usual scenario.

One of the linchpins of the Carbon Plan is the development of a potent in-house program to detect reduction opportunities. Thanks to this initiative, known as CORE (Reduction Opportunity Catalogue), 94 projects had been identified by year-end 2008.

Repsol continued to work throughout year towards ensuring the consistency, transparency, and credibility of greenhouse gas emission quantification, monitoring, and reporting processes, applying the program introduced in 2007 for verifying the inventory of this type of gas and measures for its reduction in accordance with ISO Standard 14064.

Investment in Carbon Funds continued as established in recent years. These funds are used to develop CDM projects in developing countries, including investing in energy efficiency initiatives, renewable energies, waste management, and fuel change projects. In 2008, the

company participated in two initiatives carried out in China through the Natsource Carbon Fund “Greenhouse Gas Credit Aggregation Pool (GG-CAP)”, an industrial cogeneration project in Chaochuan and another hydro generation project in the province of Hunan which is powered by the current of the Chenshui River.

Biodiversity

Repsol respects biodiversity when planning and developing its projects and operations, preventing and minimising the possible negative impacts on ecosystems. In 2008, Repsol YPF developed a set of regulations that define the biodiversity criteria and guidelines for all the company's operations, including the commitment to implement the Biodiversity Action Plans in projects developed in sensitive areas.

Along these lines, in 2008 the company continued developing the two Biodiversity Action Plan (BAP) undertaken in 2006 in relation to exploration activities in block 39 (Peru) in collaboration with the prestigious Smithsonian Institution, and in 2007 for offshore operations in Trinidad and Tobago.

Acknowledgement in safety and the environment

For the third consecutive year, Repsol was included in the selective Dow Jones Sustainability World Index, the Dow Jones Euro Stoxx Sustainability Index, and the Climate Leadership Index.

The Dow Jones Sustainability Index comprises several market indices whose members must prove that they have implemented advanced practices in relation to various corporate responsibility facets. On an annual basis, these indices assess several aspects, including companies' management of safety and environmental issues. In 2008, for the first time, Repsol obtained the maximum rating in its sector with respect to environmental policy and management, protection of biodiversity, and on-the-job health and safety. In addition, for the second consecutive time, the company received top ratings for its management of climate change.

For the third consecutive year, Repsol remained in the Climate Leadership Index which includes the 30 best Financial Times 500 companies in issues such as strategy and transparency policy in relation to climate change. The company was rated one of the best three in the oil and gas sector and was the only one that has ranked among the top three over the past three years.

For its inclusion in this index, Repsol successfully passed an evaluation of ten key criteria related to its activity, such as investment in new technologies to reduce emission, emission inventory management and reporting, and investment in energy savings and efficiency.

Since 2003, Repsol has been a member of the FTSE4Good (Financial Times Stock Exchange Index) in the London Stock Exchange.

3.4

Knowledge Management

Repsol is currently immersed in a moment of change to adapt itself to the needs of a competitive market that demands constant innovation. To this end, the company plans to contribute to this adaptation by creating value and innovative capabilities in the organization through the use of knowledge management techniques and tools.

General Mission

Knowledge management initiatives at Repsol must contribute to business results, efficiency improvement, and commitment management through the design and deployment of a capabilities development and transfer model among all the business units and the organization's transversal areas. The objective is to create a common framework for generating innovative capabilities, constantly aligned to strategic objectives and the results of which can be quantified to ensure sustainable improvement.

Corporate Vision

Repsol wants knowledge management to become an undifferentiated and intrinsic part of the day-to-day activity of its employees and of its work processes and evaluation systems, contributing to a constant improvement and innovation framework and an environment that encourages the participation, implication, and development of company employees. Through knowledge management, Repsol aims for its employees to feel professionally enriched and motivated and encouraged, on a personal level, to participate actively in the company's progress.

Strategic Objective

Repsol employees, no matter where they are or in which unit or functional area they carry out their activities, will have access to all available knowledge (contents, people, and processes) to enable them to find, whenever they need it, the pertinent knowledge and the constant identification and transfer of good practices in all key areas and processes, contributing to creating a favourable environment for innovation.

Deployment and actions carried out

As part of the strategic knowledge management plan, new practice communities have been created which, together with those already in existence, comprise approximately 20,000 people throughout the entire company. In 2008, projects for retaining employees' knowledge and its transfer to others, (due to retirement, turnover, changes, the incorporation of new professionals, training material, etc.) remained in place. Applied methodology is mainly supported by compiling personal histories and experiences which are recorded in audiovisual support.

The Moebius Project was launched in order to bring the company's knowledge closer to its employees. Its objective is to make available to all employees the knowledge existing within Repsol. To accomplish this, a prototype of the desired final system has been made. In collaboration with the Systems Division, a preliminary version was made that is currently being used to show the achievable functionalities to all business units and to have a trial environment to optimise performance and ensure its proper use by end users.

Acknowledgements

In 2008, Repsol received the European MAKE-2008 award in recognition for the measures implemented by the company and the results achieved in knowledge management through the evaluation of more than 500 professionals, thanks to which, Repsol was selected as one of the ten best European companies in this field.

3.5**Quality: Management Excellence**

Repsol perceives quality as the constant pursuit of excellence by managing the company's resources in an appropriate manner to generate value for its stakeholders over the course of time.

In 2001, in order to make progress on the road to excellence, Repsol adopted the European Foundation for Quality Management (EFQM) and the Ibero-American Foundation for Quality (FUNDIBEQ) models, implementing these models by performing periodic self-assessments that enable the company's units to identify, prioritize, implement, and assess its improvement plans.

Repsol is a member of the two international foundations (EFQM and FUNDIBEQ) and actively participates in the leading quality associations in the geographical regions where it operates.

Updating the Strategic Quality Plan

Each year, the Quality Committee, comprising senior management representatives from core business areas and corporate directors, approves the company's Strategic Quality Plan which sets out the priority objectives and the actions contemplated for developing the quality policy. The current plan envisages several strategic lines that recognise and promote as one of Repsol's core professional values, a customer-driven policy guided by knowing and satisfying customers' needs with speed and flexibility, and by anticipating their expectations. The basic premise of the plan is to foster creativity and innovation as a means of ensuring sustainable competitive advantage.

In 2008, the company continued to develop the key Strategic Quality Plan programs. As part of the consolidation and improvement of the self-assessment process, the company's different business units define and implement their improvement plans and programs based on the self-assessments that they perform.

Since the program was first implemented in 2001, more than 120 self-assessments have been performed. This implies that at 31 December 2008, 100% of the organization had completed at least two self-assessments, and 30% had performed three or more.

The self-assessment methodology, designed in 2007, was reviewed in depth in 2008 for the purpose of improving its alignment with the business strategy and ensuring the integration of all improvement initiatives and the monitoring of action plans, also with the objective of

having the quality function act as a catalyst for change management. All this is supported by ambitious value-accretion objectives and underpinned by a system of indicators for monitoring and bolstering the constant improvement processes and enhanced efficiency.

Repsol also worked on implementing a process-focused management system throughout the entire company. The decision-making process and implementation of improvements to ensure fulfilment of objectives are supported by establishing processes and identifying performance indicators and metrics.

Repsol promotes the use of benchmarking as the basis for establishing improvement objectives according to the environment and disseminating knowledge of best practice within the organization.

Innovation and the use of quality training

Repsol also promotes innovation as an essential management value as reflected in its quality policy. In 2007, the company approved the implementation of an innovation framework promoted by Club Excelencia en Gestión (Management Excellence Club) and the COTEC Foundation as a reference for boosting the organization's capacity for innovation.

A new training curriculum on quality was developed in 2008 for all company personnel. This curriculum covers all quality-related aspects: excellence and self-assessment models; process-driven management; quality certifications; and basic tools and methodologies for improvement and their implementation.

On 8 October 2008, an open-door seminar was organized at Repsol's headquarters, in collaboration with the Management Excellence Club, under the slogan "Let's invent the future". At this event, in which 150 people from 60 companies from different sectors participated, information was provided on some of the relevant initiatives that the Group is implementing in its quest for achieving excellence. To shed light on Repsol's quality policy commitments, the day's agenda included subjects related to the transformation of the organization, human capital, innovation, the environment, and the company's constant commitment to the community. These themes coincide with the core values promoted by the Management Excellence Club and excellence principles promoted by the EFQM and FUNDIBEQ models applied at Repsol.

Certifications

Repsol promotes the implementation of quality management systems based on international standards in order to progress on the road to excellence, developing a culture and commitment to quality, and complying with market requirements.

The company has approximately 60 quality certifications based on standards such as ISO 9001:2000, TS 16949, and ISO 17025, which are available at the company's website (www.repsol.com).

3.6

Corporate Responsibility

Commitment to society

Repsol works in a large variety of social, cultural and financial environments. A concern for local sensitivities helps the company understand and respond to the particular needs of the communities with which it comes into contact in the different phases of its business. Devoting attention to local issues gives Repsol a closer feel for the concerns of the people living in the vicinity of the company's operations.

Repsol's efficient and modern energy management is framed in the context of a firm commitment to the well-being, development and prosperity of the societies in which it is present and to the principles of sustainable development. The company sees social commitment as an inherent part of its activity. Between them, protecting the natural and social environment, good relations with the communities in which it works, people's safety and respect for human rights define its management model.

During 2008, Repsol made progress in putting into action the six strategic strands of the 2007-2009 Corporate Responsibility Master Plan. As of 31 December 2008, fifty of the 65 steps set out in the Plan had been implemented, amounting to a progress rate of 80%.

A closer and ongoing relationship with the different groups of interest to the company is one of the basic premises of the Community Commitment Scheme, which is framed in the context of one of the strategic strands of the Master Plan aimed at promoting dialogue and cooperation with the community.

This scheme focuses on analysing, organising and steering the company's social commitment activities, aligning them with the objectives and strategy of the business and with the real needs of the communities and societies in which Repsol operates.

One of the key milestones this year was the preparation and approval of the policy for relations with the community and the policy for relations with indigenous communities, which from that point on govern the practices of Repsol and of its contractors and suppliers.

Social stakeholders played a part in drawing up the policies. To be precise, more than 24 national and international organisations were contacted when the policy for relations with indigenous communities was drawn up.

This policy represents Repsol's support for the recognition of indigenous peoples as set out in Convention 169 of the International Labour Organization (ILO) and in the Declaration on the Rights of Indigenous Peoples of the United Nations General Assembly. It acknowledges the differential nature of these communities, the duty to respect and promote their human rights and fundamental freedoms and, particularly, their organisational, economic and social structures. Likewise, in the framework of the approved policies mentioned above, Repsol undertakes to consult those communities beforehand and knowledgeably and to let them share, whenever possible, the benefits afforded by business activities to exploit the hydrocarbon resources that exist in their soil, among others.

These policies make it possible to strengthen the approach that Repsol has sought to promote in the dialogue with and understanding of the communities in the vicinity of its business operations, and to respond to their specific needs by drawing up plans for relations with the community.

The company's approach to corporate responsibility and sustainable development won recognition once more in 2008. Repsol was included again in the selective Dow Jones Sustainability Indexes. In terms of the social criteria assessed in the analysis, Repsol stood out for its solid social commitment and scored top marks in human capital development, health and safety in the workplace and social impact on communities. Likewise, by continuing to be included in the FTSE4Good index, Repsol's commitment to long-term value creation is endorsed for another year.

In 2009, and taking the expectations of groups of interest into account, the foundations for the company's new Corporate Responsibility strategy will be established around the new 2010-2012 Master Plan.

As a result of Repsol's voluntary commitment to the sustained enhancement of society, the Repsol Foundation embarked on a new phase in 2008 in which it set itself new goals.

The Foundation is considered to be the maximum expression of the company's pledge for social responsibility. Its aim is to work in fields in which it can make more of a contribution, which have a clear impact on the enhancement and progress of society and which contribute to people's well-being. Its areas of activity revolve around social action, energy and the environment, responsible mobility and education and culture. The Foundation will also provide debate on and analysis of trends and sensitive areas of concern in the social, energy and environmental field, creating meeting places and discussion forums.

The new Foundation is responsible for running cultural, social, scientific and educational schemes and activities as well as those for promoting research, a function hitherto scattered across the Repsol Group, thus giving continuity to the initiatives that the company was putting in practice from its Corporate Responsibility unit.

More than 1,200 schemes

One of Repsol's strands of activity in terms of social commitment responds to needs identified in the communities from a lasting power viewpoint. As a rule, the company, in conjunction with the communities or their representatives, decides which priority projects should be undertaken in order to help address the needs identified.

The activities that the company has carried out can be summarised in the following strands of activity: education and training, community development, health, social integration, the environment, art and culture.

In 2008, Repsol YPF and its foundations put €30 million towards social investment altogether. All in all, during the year, more than 1,200 social and cultural schemes were undertaken.

INVESTMENT IN SOCIAL AND CULTURAL SCHEMES					Thousands of Euros
	2004	2005	2006	2007	2008
Spain (1)	9,714	10,856	12,806	13,308	8,982
Europe, Africa and Asia	868	295	801	1,270	845
North America	537	719	478	54	62
South America (excl. Arg.)	2,836	3,903	5,116	5,310	5,343
Argentina	2,378	6,898	6,254	12,360	14,662
TOTAL	16,333	22,671	25,455	32,302	29,894
% of pre-tax results (2)	0.40%	0.41%	0.47%	0.58%	0.63%

(1) Higher Institute for Energy (Instituto Superior de Energía, ISE) involvement in 2008 amounted to nearly €5 million.

(2) Calculated on earnings before tax and from associated companies.

3-7

Communication

Transparency and having close relations with society's different stakeholders are the mainstay of Repsol's communications strategy. These days, society wants accessible information and Repsol does not hesitate to cater for this need in the smoothest and most reliable way possible, through a number of different tools.

Shareholders and investors

These groups have access to all sorts of resources that enable them to find out about the day-to-day business of the company. Since its flotation in 1989, Repsol has had a Shareholder's Information Office (Oficina de información al Accionista, OIA) and an Investor Relations Office, and through them both it deals with the needs of its shareholders, institutional investors and stock market analysts.

Shareholders can ask for any information they need at the OIA, by going to the office themselves, calling the 900 100 100 freephone or by post or e-mail. In 2008, the OIA dealt with over 62,000 calls (an average of 238 a day) and nearly 300 e-mails from shareholders asking for information. Most of the enquiries in 2008 had to do with the share price, the General Meeting of Shareholders, the policy for and dates of payment of dividends and the material facts of the company.

Added to that, the corporate web site (www.repsol.com) provides access to all the relevant information about the company, as well as specific contents in the section on "Information for shareholders and investors", which in 2008 had more than 200,000 visits. The portal also has an e-mail address (infoaccionistas@repsolypf.com) where enquiries can be sent and publications requested. In 2008, more than 500 e-mails were sent to this mailbox, mainly asking for information about Repsol.

The Investor Relations Office provides smooth communication with institutional investors and stock market analysts. One of the highlights of its activities in 2008 was the presentation of the 2008-2012 Strategic Plan to investors and to the international financial community. During the year, 12 global roadshows were held (meetings by company executives with international institutional investors) and more than 120 one-on-one interviews (personal interviews with investors and financial analysts). Repsol also organised a number of sector-based conferences in Europe and the United States which were attended by a large number of institutional investors. In 2008, the Investor Relations Office also arranged a field trip for financial analysts to Repsol's Houston offices to present the Upstream projects that the company is carrying out in the area, as well as the company's deepwater exploration strategy.

News media

Repsol's policy for news media relations is based on the principles of the transparency, accuracy and reliability of the information conveyed. The company endeavours to ensure that requests for information from journalists are answered as quickly as possible, keeping up a free-flowing and ongoing contact with the media which is regarded as vital for conveying developments in, the business activity and management of a company present in some 30 countries.

Repsol's Communications Office deals daily with general and specialised media at international, national, regional and local level, providing them with information about everything that the professionals from this sector need to know. In addition, it works closely with the local media in the places where the company's industrial complexes are located.

All the news media are informed of any activity and initiative carried out by Repsol by means of press releases. In 2008, Repsol distributed more than 80 press releases in Spain alone, as well as others disseminated by industrial complexes at local level, and those issued in the countries where the company operates.

To strengthen the relationship with journalists, press conferences and specific informative meetings with the heads of news media are arranged. Particular mention should be made of those held in 2008 to mark the General Meeting of Shareholders and the presentation of the 2008-2012 Strategic Plan.

The company's website has a specific space, the press room, that provides immediate access to information about the Group. From this space, the press releases issued by Repsol, and publications, pictures and all kinds of relevant information about the company are made available to the news media and the public in general. It also contains useful tools, such as a glossary of terms.

Repsol has a press mailbox (prensa@repsol.com) that operates 24 hours a day which facilitates the relationship with the different news media. Near on 4,000 enquiries and requests for information were dealt with in 2008 through this channel.

The repsol.com portal is an important communications tool. Its monthly average of visits and of pages viewed, five million and eighty million respectively, endorse it as one of portals most visited among all the companies that make up the IBEX-35, the principal benchmark index of the Spanish stock exchange. The repsol.com site includes new features constantly that enhance the appeal, accessibility, security and speed of the information. The portal, which among other services provides the company's customers with the possibility of operating online, can be consulted in Spanish, English, Portuguese, Catalan, Gallego and Basque.

In 2008, the international consultancy, Hallvarsson&Hallvarsson, credited Repsol with being the top Spanish company in terms of its transparency and best practices in the contents of its corporate web site, standing sixth in the global ranking of companies with the highest market capitalisation in Europe.

That same year, the company's portal won the IMA Outstanding Achievement Award for its Service Stations' channel, a recognition of the effort made to disseminate its business activities and to forge a closer relationship between the brand and its products and customers in an innovative and accessible way.

3.8

Branding Policy

In 2008, considerable progress was made in consolidating the brand strategy, and major milestones were achieving in marketing and communication, the cornerstones for value creation for the company.

Communicating Repsol's expertise and technological innovation at the service of society.

The communications campaign "Inventemos el futuro" (Let's invent the future) summarises the positioning of an expert company in the energy sector and one that is, at the same time, responsible and people-oriented, committed to society and the future.

To give tangible proof of the progress made by Repsol along these lines, the communications campaign was based on four of its most innovative projects:

- **Microalgae.** Repsol develops second-generation biofuels from microalgae and other cultures not suitable for food purposes.
- **Kaleidoscope.** Cutting-edge science and technology join forces to discover oil and gas fields in the depths of the sea, respecting the natural environment.
- **Asphalts.** By recycling tyres, Repsol produces asphalts that reduce environmental and acoustic pollution and improve road safety.
- **Plastics.** Repsol is developing a new generation of environment-friendly plastics for greenhouses, which achieve more efficient crops by making optimum use of the sun and less use of water.

Rationalisation of the architecture of company brands.

Repsol's brands policy is focused on building and boosting the YPF brand in Argentina and the Repsol brand elsewhere in the world. The key steps taken involved conducting a company-wide review of the main brand applications, prioritising those with most visual impact. To give a striking example of this approach, the name of the guidebook "Guía Campsa" was changed to "Guía Repsol", after providing information about gastronomy and tourism in Spain for more than 30 years. The product-brands have been redefined, as well, using the Repsol brand for all of them so that the link is never lost. The company's new product-brands are designed in the frame of a graphic family that facilitates selective recall, albeit always meeting the specific needs of each business area.

The correct monitoring and application of brand identity objectives is a key piece in the coherent positioning of the Repsol brand and its trade brands; it enables its renown to grow in a sustained way, guarantees knowledge of and conveyance of the values that identify it and acts as support for increasing its financial value.

The strategic priority in building and managing the brand is reflected in the documents on the guidelines that should underpin our communication, both at external and internal level. To guarantee the correct application of the brand and its identity, the key communications managers are provided with identity handbooks, which strictly define the most noteworthy aspects of the use of the brand at their different contact points, whether it be a service station, a butane gas distributor agency or a fuel transport lorry. In this way, a process for renewing the visual identity handbooks has commenced, in which efforts are focused on interactivity, simplification, ease of use and the possibility of downloading printed forms.

In the period 2006-2007 and in the framework of an internal strategic reflection based on the results of the brand assessment project and other studies, a wide range of initiatives were undertaken to optimise brand management and create financial value in the medium and long term. To gauge the impact of these initiatives on the company's brands and on customers, a new appraisal of the company's principal brands has been made which analyses trends in their positioning, the impact of communications and sponsorship actions, and the changes in the competitive context. This helps gauge the variation in customer drivers and the brand role and strength since the last appraisal and up to the present day. This assessment will make it possible to support strategic decision-making in this context and strengthen recognition of the brand and of other intangible assets as key assets of the company vis-à-vis its employees and society in general.

3-9

Sports Sponsorship

In 2008, and for another year running, Repsol took part in competitions such as the World Motorcycle Championship which represent the best test benches for its fuels and lubricants by exposing them to the most extreme situations. Thanks specifically to this experience, gained in developing specific products for top-level competitions, Repsol is able to maintain its lead position in the research and development of products capable of living up to the expectations of its customers.

2008 was an outstanding season in terms of the world titles secured by the Repsol drivers who took part in top notch international competitions. Between them they won the outdoor World Trial Championship in the women's category, and the same title and that of the indoor World Trial Championship in the men's category. They also secured first place in the GP2 Series –the threshold to Formula 1– and the title of world champions, individual and by teams, in the World Touring Car Championship, which adds up to six world medals to add to Repsol's record.

Of note in 2008 was Repsol's participation in the World Touring Car Championship (WTCC). In its fifth year, this competition has positioned itself as the second most important automobile event, only surpassed by Formula 1. Yvan Muller's victory and the team victory secured with Seat were a great international showcase for the Repsol brand, another of the attributes, together with the development of fuels and lubricants, through which the company pledges commitment to sports sponsorship.

In the World Motorcycle Championship, Repsol rider Marc Marquez, aged 16, stood to form part of the elite in this discipline, demonstrating his qualities, both sporting and human, features which Repsol always views positively in its sports representatives, in addition to rigorous standards and professional expertise. In MotoGP, the maximum category, Dani Pedrosa held onto his position as leader for the first half of the championship, and, although

good luck then deserted him, he ended the season with a well-deserved third place in the overall classification.

In trial, Toni Bou proved to be the indisputable new leader in this speciality, by regaining his two world titles, while Laia Sanz remained at the top in the women's category, achieving her eighth world crown.

2009 could not have started off better for Repsol. Once again, Marc Coma proved that nobody can overshadow him in offroad motorcycles by winning the Dakar 2009, which was held for the first time in Argentina and Chile. He is the first Spaniard to be two-times champion in this mythical event and the first win by a Repsol rider this year, which marks the 40th anniversary of the company's presence in the motor world.

4

Supplementary Content of the Management Report

(Pursuant to section 116 (B) of the Securities Market Act (Ley del Mercado de Valores))

A. Capital structure, including securities not traded on a European Community regulated market, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations that it confers and the percentage of capital that it represents.

The Share Capital of Repsol YPF, S.A. is currently €1,220,863,463, represented by 1,220,863,463 shares, each with a par value of 1 euro, fully subscribed and paid up, belonging to a single class and, consequently, having the same rights and obligations.

The shares of Repsol YPF, S.A. are represented by book entries and have all been admitted to listing on the continuous market of the Spanish securities markets (Madrid, Barcelona, Bilbao and Valencia), the New York Stock Exchange and the Buenos Aires exchange (Bolsa de Comercio de Buenos Aires).

B. Any restriction on the transferability of securities.

As laid down in the 11th Additional Provision of Act 34/1998 on the hydrocarbons sector, in the wording thereof given by Royal Decree-Law 4/2006, 24 February, administrative authorisation must be sought from the National Energy Commission for certain holding acquisitions that involve companies that carry on regulated activities or activities that are subject to administrative intervention which entails a special binding relationship.

The Ruling of the Court of Justice of the European Communities (CJEC) of 28 July 2008 laid down that, by enforcing this requirement, the Kingdom of Spain has breached the obligations incumbent upon it under articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the European Community Constitutional Treaty.

C. Significant direct or indirect holdings in the capital.

As of the last date available, the following were the most significant holdings in the share capital of Repsol YPF:

Shareholder	Total % of the share capital
Sacyr Vallehermoso, S.A. ⁽¹⁾	20.01
Criteria Caixa Corp. ⁽²⁾	14.31
Petróleos Mexicanos ⁽³⁾	4.81

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

(2) Criteria Caixa Corp. owns 9.28% directly and 5.02% indirectly through Repinves, S.A. (a company in which Criteria Caixa Corp. holds 67.60% stake).

(3) Petróleos Mexicanos (Pemex) holds its stake through Pemex Internacional España, S.A. and through several equity swap instruments which enable Pemex to exercise the economic and the political rights of a percentage of up to 4.81% of the Company's share capital.

Furthermore, on 18 January 2008 the entities Barclays Global Investors, NA, Barclays Global Investors, Ltd., Barclays Global Fund Advisors and Barclays Global Investors (Deutschland) AG notified the Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV) of the existence of an agreement for the concerted exercise of voting rights in Repsol YPF for a 3.22% holding. According to the information submitted to the CNMV, such entities are management companies of collective investment institutions, without their controlling entity (Barclays Global Investors UK Holdings, Ltd.) giving direct or indirect instructions for the exercise of the corresponding voting rights held by such management firms.

D. Any restriction on voting rights.

- Article 27 of the Corporate Articles of Association of Repsol YPF, S.A. lays down that the maximum number of votes that an individual shareholder, or companies belonging to the same Group, may cast at the General Meeting of Shareholders shall be 10% of the Share Capital with voting rights.
- Pursuant to Act 55/1999 (amended by Act 62/2003), the Administration must be notified of holdings acquired by state-owned entities, or entities of any kind in which state-owned entities have a majority or controlling interest of, at least, 3% in the share capital of energy companies, in order that the Council of Ministers, within a period of two months, may authorise, deny or place conditions on the exercise of the voting rights (the so called “golden energy share”).

With regard to that provision, the Ruling of the Court of Justice of the European Communities (CJEC) of 14 February 2008 laid down that the Kingdom of Spain has breached the obligations incumbent upon it under article 56 EC (freedom of movement of capital), by keeping in force measures such as the “golden energy share” which restrict the voting rights attached to shares held by state-owned entities in Spanish firms operating in the energy sector.

- Furthermore, article 34 of Royal Decree-Law 6/2000 lays down certain constraints on the exercise of voting rights in more than one principal operator in the same market or sector. Among others, it lists the markets for the production and distribution of fuels, the production and supply of liquid petroleum gases and the production and supply of natural gas, principal operator being understood to be the entities that hold the five largest shares in the market in question.

Such constraints are specified as follows:

- Natural or legal persons who have a direct or indirect holding of over 3% in the Share Capital or the voting rights of two or more principal operators in the same market may not exercise the voting rights attached to the excess over and above such percentage in more than one of those companies.
- A principal operator may not exercise voting rights in a holding of more than 3% of the Share Capital of another principal operator in the same market.

These prohibitions shall not apply to parent companies which have the status of principal operator with respect to their controlled companies that have the same status, provided that such structure is imposed by the legal system or is the consequence of a mere redistribution of securities or assets among companies in the same Group.

The National Energy Commission, as the energy market regulatory body, may authorise the exercise of the voting rights attached to the excess, provided that this does not favour the exchange of strategic information or entail risks of coordination in their strategic activities.

E. Shareholders' Agreements.

Repsol YPF, S.A. has not been informed of any shareholders' agreement that includes the regulation of the exercise of voting rights at its general meetings or that restricts or places conditions on the free transfer of Repsol YPF, S.A. shares.

F. Rules applicable to the appointment and replacement of members of the board of directors and to the amendment of the corporate Articles of Association.

• Appointment

The General Meeting of Shareholders is entrusted with nominating the members of the Board of Directors, notwithstanding the powers of the Board to nominate persons from among the shareholders to fill vacancies that arise until the next General Meeting is held.

Persons to whom the prohibitions under section 124 of the Companies Act (Ley de Sociedades Anónimas) apply and those who are incompatible according to the law in force may not be appointed as directors.

Persons and entities that are in a situation of permanent conflict of interest with the Company, including rival entities, their directors, executives or employees and the persons linked with or proposed by them may not be directors of the Company either.

Nominees shall be persons who, in addition to fulfilling the requirements for the post stipulated in the law and Articles of Association, have acknowledged prestige and possess the appropriate professional knowledge and expertise for performing their duties.

The proposals for the appointment of Directors that the Board submits to the General Meeting, and appointments made by co-option, shall be approved by the Board (i) at the proposal of the Nomination and Compensation Committee, in the case of Independent External Directors, or (ii) subject to a prior report by that Committee in the case of the other directors.

- **Re-election**

The Nomination and Compensation Committee is responsible for assessing the quality of work and dedication to the office during the preceding term of office of directors proposed for re-election.

The proposals for the re-election of Directors that the Board submits to the General Meeting shall be approved by the Board (i) at the proposal of the Nomination and Compensation Committee, in the case of Independent External Directors, or (ii) subject to a prior report by that Committee, in the case of the other directors.

- **Withdrawal or resignation**

Directors shall cease to hold office when the term for which they were appointed expires (unless they are re-elected) and in the other circumstances provided for in the Law, the Corporate Articles of Association and the by-laws of the Board of Directors.

Furthermore, directors must submit their resignation to the Board of Directors in any of the following circumstances:

- a. When any of the instances of incompatibility or prohibition provided for by law, the Company's Articles of Association or the regulations apply to them.
- b. When they have been seriously cautioned by the Nomination and Compensation Committee or the Audit and Control Committee for having breached their obligations as Directors.
- c. When, in the opinion of the Board, subject to a prior report by the Nomination and Compensation Committee:
 1. Their continued presence on the Board may jeopardise the interests of the Company or impair the functioning of the Board itself or the standing and reputation of the Company; or
 2. When the reasons for which they were appointed disappear. This includes, in particular:
 - The External Institutional Directors when the shareholder that they represent or that had proposed their appointment transfers the whole of its shareholding. They must also surrender their post to the Board and, if the Board deems it fitting, tender the respective formal resignation, in the corresponding proportion, when such shareholder reduces its shareholding to a level that requires the reduction in number of its External Institutional Directors.
 - The Executive Directors, when they cease to hold the executive posts outside the Board to which their appointment as Director was linked.

The Board of Directors shall not propose the withdrawal from office of any Independent External Director before the statutory period for which he/she had been appointed comes to an end, except when there are proper grounds for doing so, in the opinion of the Board subject to a prior report by the Nomination and Compensation Committee. In particular, proper grounds shall be deemed to exist when the Director (i) had breached the duties inherent in his/her office; (ii) were in any of the situations described in the previous paragraphs; or (iii) were in any of the circumstances described in the Rules and Regulations of the Board as a result of which he/she cannot be classified as an Independent External Director.

Proposals for the withdrawal from office of Independent External Directors may also be made as a result of takeover bids, mergers or other similar corporate operations that entail a change in the Company's capital structure, to the extent necessary to establish a reasonable balance between External Institutional Directors and Independent External Directors according to the relationship between the capital represented by the former and the remainder of the capital.

• **Amendment of the Articles of Association**

The Articles of Association of Repsol YPF, S.A., which are available on its website (www.repsol.com), do not lay down different conditions from those contained in the Joint Stock Companies Act (Ley de Sociedades Anónimas) for their amendment, with the exception of the amendment of the last paragraph of section 27, regarding the maximum number of votes that a shareholder or companies belonging to the same Group may cast at the General Meeting. Said resolution, as well as the resolution to amend this special rule contained in the last paragraph of section 22 of the Articles of Association, require, both in the first and in the second convening, the favourable vote of 75% of the share capital with voting rights attending the General Meeting.

G. Powers of the members of the Board of Directors and, in particular, those concerning the possibility of issuing or buying back shares.

The Annual General Meeting of Shareholders of the company, held on 31 May 2005 agreed to authorise the Board of Directors to increase the Share Capital, once or several times, during a period of 5 years, by the maximum amount of €610,431,731 (approximately half the current Share Capital), by issuing new shares the countervalue of which shall consist of cash contributions.

Likewise, the Annual General Meeting of Shareholders of the company, held on 14 May 2008, authorised the Board of Directors to make the derivative acquisition of own shares, under the terms indicated above in the “Financial overview” section of this Management Report.

Finally, in addition to the powers recognised in the Company's Articles of Association and the Board Regulations as being conferred upon the Chairman and Deputy Chairman of the Board, the Executive Directors have each been granted general powers of attorney to represent the Company, conferred by the Board of Directors, and which are duly recorded in the Madrid Companies Register.

H. Significant agreements to which the company is party and that take effect, alter or terminate upon a change of control at the company as a result of a takeover bid, and their effects, except when disclosure thereof would be seriously detrimental to the company. This exception shall not apply when the company is under the legal obligation to make this information public.

The Company participates in exploring for and exploiting hydrocarbons through consortiums or joint ventures with other oil companies, both private and state-owned. In the contracts that govern relations between the members of the consortium the other partners are usually granted a right of first refusal over the holding of the partner on which a change of control takes place when the value of said holding is significant in relation to the overall assets of the transaction or when other conditions set out in the contracts occur.

Likewise, according to the rules regulating the oil and gas industry in the different countries in which the Company operates, the transfer, total or partial, of research permits and exploitation concessions as well as, on occasions, the change of control in the concessionaire entity or entities and in particular in the entity that has the status of mining area operator, are subject to prior authorisation by the competent administrative authority.

In addition, the agreements entered into by and between Repsol YPF and Caja de Ahorros y Pensiones de Barcelona (“la Caixa”) relating to Gas Natural SDG, S.A., reported as relevant facts through the Securities Market Commission, as well as the Agreement for Industrial Activity between Repsol YPF and Gas Natural SDG, S.A. provided for in them and notified as a relevant fact on 29 April 2005 and the Partnership Agreement between Repsol YPF and Gas Natural SDG relating to Repsol–Gas Natural LNG, S.L. consider the change in the control structure of either of the parties to be cause for termination.

I. Agreements between the company and its directors and executives or employees providing for compensation when they resign or are unfairly dismissed or if the employment relationship comes to an end because of a takeover bid.

• **Executive Directors**

The Chairman and the General Secretary and Member of the Board are entitled to a Deferred Financial Compensation in the event of the termination of their relationship with the company, provided that said termination does not take place as a result of a breach of their obligations or of their own free will, without there being grounds for it, among those provided for in the contract itself. The amount of the indemnity for termination of the relationship shall be three years' total monetary remuneration.

- Executives

The Repsol YPF Group has established a sole legal rule for executive staff, which is specified in the Executive Contract, in which the compensation system applicable in circumstances involving termination of the employment relationship is regulated and in which the causes provided for under the law in force are considered as causes for compensation.

In the case of senior executives, they include the resignation of the executive following corporate succession or a major change in its ownership, resulting in a replacement of its governing bodies or of the content and approach of its core business activity.

The amount of the indemnity payments is calculated according to the age, length of service and salary of the executive, except in one case, in which it is established as three years' total monetary remuneration.

Further information about this matter can be found in Note 34 of the consolidated financial statements of the Repsol YPF Group.

New Repsol Headquarters

On November 3rd last, after having secured the permits and authorizations granted by the Town Hall of Madrid, the construction works for new head office of Repsol located in Méndez Álvaro commenced at the plots belonging to the former site of Compañía Logística de Hidrocarburos (CLH). This project has been commissioned to the prestigious architects' firm Rafael de la Hoz.

The future corporate headquarters of Repsol will boast of an aggregate 66,000 sqm overhead built surface spanning between ground level and its four floors of offices and facilities. Below ground level, the 56,000 sqm available will be distributed in two basement floors for general installations and parking lots for 2,000 vehicles. The project contemplates the allocation of more than 8,000 sqm. committed to an ambitious facilities' plan for the employees.

The closed ring layout of the buildings will provide a garden enclosure of more than 9,500 sqm designed by the architectural and landscape firm Latz & Partner. This area based on a sustainable growth concept will avail itself of a rainfall reutilization system and of native species and/or adapted to the Madrid climate. Moreover, within the perimeter of the business park a new green area will be created of 2,700 sqm which ties in with the existing ones in the area.

During the design stage of the project, Repsol is fully committed to sustainability, which will enable it to obtain the prestigious Leadership in Energy & Environmental Design (LEED®) Certification awarded by the U.S. Green Building Council. This prestigious institution has developed a system which takes into account the full life cycle of the building (design, construction, operation and maintenance). The main variables will be location of the plot chosen, the water and energy consumption efficiency, the environmental quality within the building and the source of the materials used during the construction process.

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