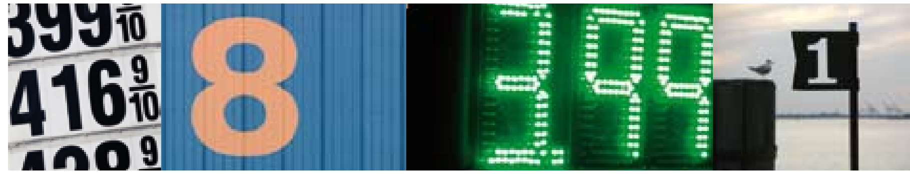


Financial and Economic information

Macroeconomic environment

The year ended 31 December 2008 was marked by the global economic crisis and uncertainty. Economic growth had begun 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 financing requirements, but subsequently intensified, 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 a significant loss of confidence and leading to a recession in the major 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 20007), while emerging and developing economies grew 6.3%, showing strong performance although 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 markets, which demonstrated great resistance until the last quarter of the year when financial tensions peaked as Lehman Brothers, the US investment bank, declared bankruptcy.

Another important factor within the context of the 2008 macroeconomic scenario was the sharp rise in inflation up until the third quarter, after which it fell sharply, principally as a consequence of the evolution of raw materials, oil and cereals prices.

One year, two scenarios

Oil prices in 2008 continued the upward trend that began in 2002. The average price of Brent was $97 versus the $72 recorded in 2007; although it was highly volatile reaching a maximum of $133 in July 2008 and then plunging to a monthly average of $40 in December as a result of the slump in global economic activity.

The oil market in 2008 was extremely volatile. Prices in the first half of the year followed the upward trend in place since the start of 2007, continuing to climb

from the average $92 per 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 $145 per 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 over 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 due to two causes: reduced demand in view of the

In the second half of 2008 oil prices fell to levels not seen since 2004

macroeconomic outlook; and deleveraging in the financial market. Oil prices fell to levels not seen since 2004, averaging $99.45 per barrel at the end of 2008.

The moderation in inflation registered from 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 also intervened providing public funds to recapitalize 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 by 1.1%, down from the 2% recorded in 2007. The crisis, which was initially concentrated in the housing sector, spread to the manufacturing sector 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 half of the year, and average growth fell from 2.6% in 2007 to 1%.

In Spain, the international financial crisis aggravated the real estate correction that started in 2007. This scenario adversely affected domestic demand and, as a result, GDP at year-end 2008 stood at 1.2% compared to 3.7% in the last decade, following two

REPSOL GROUP INCOME STATEMENT

Millions of euros	2007	2008
Operating revenue	**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 affiliated companies	**5,584**	**4,711**
Income tax	(2,338)	(1,940)
Share of results of companies accounted for using the equity method	109	66
Net income for the year	**3,355**	**2,837**
Income attributable to minority interests	(167)	(126)
Income attributable to the parent company	**3,188**	**2,711**

quarters of economic downturn, something which had not happened in 15 years.

In 2008 Latin America benefited from high raw material prices in the first half of the year and greater macroeconomic stability, recording economic growth of nearly 4.6%, one percentage point less than in 2007. However, the financial crisis also affected the last part of 2008 due to the leveraging process, against a backdrop of increasing uncertainty.

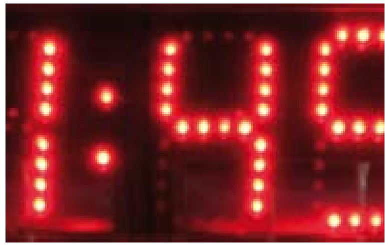
Revenues

At €2.711 billion, Repsol's net income in 2008 was 15% below the record figure posted in 2007. Excluding the inventory effect in both years, income for 2008 would have been similar to the previous year's figure. Operating revenue was €5.083 billion in comparison with €5.808 billion in 2007, while EBITDA stood at € 8.160 billion, in comparison with the 8.573 billion obtained in 2007. Earnings per share were €2.23.

Operating revenue in the Upstream business (Exploration and Production) was up 20% to €2.258 billion, reflecting higher oil benchmark prices.

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

Income in the Downstream area (Refining, Marketing, Liquefied Petroleum Gas, Trading and Chemicals) once again showed Repsol YPF's leadership position



in this business. Operating revenue in the year reflected an improvement in refining margins in comparison with the previous year, although this business was negatively affected by the sharp contraction of the chemical business in 2008 due to the global economic slump.

Associated companies

With regards to Repsol's associated companies, operating income for YPF was €1.159 billion, 5.6% less than in 2007. Higher prices in the Argentinean market offset the rise in costs, the fall in exports and in the chemical business, and the depreciation of the peso. At €555 million, operating income in Gas Natural SDG increased by 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 supply and marketing in deregulated markets.

Repsol Group's financial charges in 2008 amounted to €372 million and income tax accrued in 2008 totalled €1.940 billion, representing an effective tax rate of 41.2%.

Financial review

Despite the complex macroeconomic scenario, Repsol's financial position remained strong at the close of 2008. Net financial debt stood at €3.334 billion, €159 million less than at the end of 2007. This debt reduction was achieved despite the proportional consolidation of Gas Natural SDG's net debt which increased during the year above all due to the partial acquisition of the electric utility Union Fenosa.

Excluding Gas Natural SDG, net debt fell by €488 million thanks to the fact that the volume of EBITDA generated 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 2008–2012 Strategic Plan approved by Repsol at the beginning of the year served as the framework for the investments made in the year. The company invested €5.586 billion in 2008, most of which was allocated to developing the Shenzi exploration field in the United States, construction of the Canaport (Canada) regasification plant, the Peru LNG project and exploration activity. Expenditures include €517 million for the partial acquisition of Union Fenosa by Gas Natural SDG in July 2008. Other investments included ongoing refining projects, upgrading operations and installations, safety and the environment, fuel quality and conversion. The final investment decision for the Cartagena (Spain) refinery expansion project was made in 2008.

Divestments in the year totalled €1.721 billion. On 21 February 2008, Repsol sold a 14.9% stake in YPF to the Petersen Group for 2.235 billion dollars, providing the purchaser with a vendor loan in the amount of 1.105 billion dollars. The Petersen Group will also be able to exercise an option

NET DEBT AT THE CLOSE OF THE YEAR

Millions of euros	2007	2008
Non-current financial liabilities	10,065	10,315
Less preferred 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**
Preferred shares (note 19)	3,418	3,524
Net financing (*)	**6,911**	**6,858**

Notes to the 2008 Consolidated Annual Accounts.
(*) In addition, at 31 December 2008 and 2007 €721 and €632 million are recorded under the heading "Other non-current liabilities" and €31 and €61 million under the heading "Other creditors" corresponding to financial leases recorded using the amortized cost method (see note 23).

to increase its stake in YPF by an additional 10.1% within a maximum period of four years. This Group has already exercised an option for an additional 0.1%.

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

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

In line with its prudent financial policy, Repsol holds a significant volume of financial investments which are included in the headings listed under note 15 of the Annual Report as "Other financial assets at fair value through profits or loss", "Loans and receivables" and "Held to maturity investments" for an amount of €4.625 billion, of which €4.452 billion correspond to Repsol, excluding Gas Natural SDG. The group also has undrawn credit lines amounting to €3.916 billion, of which €3.496 billion correspond to Repsol, excluding Gas Natural SDG.

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

At December 2008, the net debt to capital employed ratio stood at 11.9%, 1.5 percentage points lower than at year-end 2007. Taking preferred shares into account, the variation in this ratio was from 26.5% at December 2007 to 24.4% at the close of 2008.

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

Management of financial risks

The organization and systems in place at the Repsol group ensure that the risks associated with the financial instruments to which the group is exposed can be identified, measured and controlled. The group's activities involve several types of financial risks:

Liquidity risk

Liquidity risk is associated with the group's capacity to finance its commitments at reasonable market prices and to execute its business plans with stable sources of funding.

Repsol applies a prudential policy with respect to liquidity risk, keeping sufficient resources available in cash and other liquid financial instruments and undrawn credit lines to meet the maturities of loans and financial debts falling due within a twelve-month horizon. The group had undrawn credit lines totalling 3.916 and €4.132 billion on 31 December 2008 and 2007 respectively.

Credit risk

The group's credit risk exposure mainly corresponds to commercial debts from trading operations. These amounts, which totalled €5.758 and 7.103 billion at 31 December 2008 and 2007 respectively, are recorded in the

EVOLUTION OF NET DEBT

Millions of euros	January–December 2008
Net debt at the start of the period	**3,493**
EBITDA	(8,160)
Working capital variation	(1,187)
Investments	5,586
Divestments (1)	(1,721)
Dividends paid (including affiliated companies)	1,608
Exchange rate effects	179
Taxes paid	2,399
Other movements	1,137
Net debt at the close of the period	**3,334**

(1) The figure for divestments includes €690 million corresponding to the loan granted to the Petersen Group as part of the sale of 14.9% of YPF carried out on 21 February 2008. In addition, divestments in long-term financial assets (€14 million) are not shown as these do not affect net debt variation.

balance sheet net of allowances for doubtful accounts and are measured and controlled by individual client or third party. For this purpose, the group has its own systems, aligned to best practices, for constantly monitoring the creditworthiness of all its debtors and for determining third party risk limits. No client accounts for more than 4% of the total amount of these accounts payable and exposure is therefore spread over a large number of clients and other counterparties.

On a general basis, the group considers bank guarantees issued by financial entities to be the most suitable credit risk protection instrument. In certain cases the group has taken out credit insurance policies through which it transfers the credit risk associated with the commercial activity of some of its business to third parties.

At 31 December 2008, the group held guarantees in force granted by third parties totalling €2.460 billion, having executed guarantees received for an amount of €10 million. As of 31 December 2007, this figure stood at €1.949 billion, with €19 million worth of guarantees having been executed.

Note 5 of the Consolidated Financial Accounts provides additional details on the risks associated with the financial instruments used by the group and note 38 describes the hedging financial instruments.

Business risk factors

The Repsol group conducts its activities within an environment in which there are risks arising from either factors affecting the group exclusively or external factors affecting all companies in the sector. These risks may have an impact on the company's business, operations, results and financial situation. Furthermore, future risks, currently unknown or not considered relevant, may also affect the company's business.

Exchange rate risk

The results of operations are exposed to variations in the exchange rates of the currencies of the countries in which Repsol operates. To mitigate this risk, Repsol contracts derivatives for those currencies in which there is a liquid market with reasonable transaction costs.

The company is also exposed to exchange rate risks affecting the value of its assets and financial investments in dollars. Most of Repsol's financing is obtained in dollars, either directly or synthetically through the contracting of foreign exchange derivatives.

Commodity price risk

As a result of carrying out commercial transactions and activities, the Repsol group's results are exposed to volatility in the price of oil, natural gas and derivative products.

Interest rate risk

The market value of the group's net financing and net interest expenses may be affected as a result of variations in interest rates.

Regulatory risks

The oil and gas industry is subject to extensive governmental regulation and intervention in areas such as exploration and production permits, the imposition of specific contractual obligations for drilling and exploration, production restrictions, price controls, asset divestments, exchange rate controls and the nationalization, expropriation or cancellation of contractual rights. Such regulation and legislation applies to virtually all Repsol group operations in the countries where it conducts its activities. Additionally, this legislation and regulation may change in the future.

The Repsol group is also subject to increasingly demanding environmental legal requirements in virtually all the countries in which it operates. These affect the company's operations in relation to issues such as the environmental quality of products, atmospheric emissions and climate change, discharges into water and management of ground water, as well as the generation, storage, transport, treatment and final disposal of waste. These requirements have had and will continue to have a substantial impact on Repsol's business, its financial situation and the result of its operations. The company has therefore made and will continue to make the necessary investments to comply with these requirements.