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The Hague, May 4, 2018

In accordance with Article 14 of Law of 9 May 2006, on market abuse, Repsol International Finance, B.V. (the "Company") is filing the unaudited interim consolidated financial statements of Repsol, S.A. and its subsidiaries for the first quarter and three-month period ended 31 March 2018 ("1Q2018 Repsol Financial Report").

The 1Q2018 Repsol Financial Report was filed today by Repsol, S.A. (Guarantor of the Euro 10,000,000,000 Guaranteed Euro Medium Term Note Programme of the Company) with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

* * *

# REPSOL, S.A. and its subsidiaries

Report on limited review of condensed interim consolidated financial statements as of 31 March 2018

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

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

## Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Repsol, S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the balance sheet as at March 31, 2018, and the income statement, statement of recognized profit and loss, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the three months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

*Scope of Review*

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

*Conclusion*

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the three months period ended March 31, 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

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*Emphasis of Matter*

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

**Other matters**

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

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goirena Basualdu

May 4, 2018

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS FIRST QUARTER 2018

REPSOL GROUP

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

## Repsol S.A. and Investees comprising the Repsol Group
## Balance sheet at March 31, 2018 and December 31, 2017

| **ASSETS** | Note | € Million **3/31/2018** | **12/31/2017** |
|---|---|---|---|
| Intangible assets: | | 4,567 | 4,584 |
| a) Goodwill | | 2,784 | 2,764 |
| b) Other intangible assets | | 1,783 | 1,820 |
| Property, plant and equipment | 4.3 | 24,285 | 24,600 |
| Investment properties | | 67 | 67 |
| Investments accounted for using the equity method | 4.4 | 5,939 | 9,268 |
| Non-current financial liabilities | 4.2 | 1,752 | 2,038 |
| Deferred tax assets | | 3,836 | 4,057 |
| Other non-current assets | | 422 | 472 |
| **NON-CURRENT ASSETS** | | **40,868** | **45,086** |
| Non-current assets held for sale | 1.3 | 3,315 | 22 |
| Inventories | | 4,347 | 3,797 |
| Trade receivables and other accounts receivable | | 5,348 | 5,912 |
| a) Trade receivables | | 3,241 | 3,979 |
| b) Receivables | | 1,496 | 1,242 |
| c) Current income tax assets | | 611 | 691 |
| Other current assets | | 202 | 182 |
| Other current financial assets | 4.2 | 286 | 257 |
| Cash and cash equivalents | 4.2 | 3,824 | 4,601 |
| **CURRENT ASSETS** | | **17,322** | **14,771** |
| **TOTAL ASSETS** | | **58,190** | **59,857** |

| **EQUITY AND LIABILITIES** | Note | € Million **3/31/2018** | **12/31/2017** |
|---|---|---|---|
| Share capital | | 1,556 | 1,556 |
| Share premium and reserves | | 27,454 | 25,694 |
| Treasury shares and own equity investments | | (549) | (45) |
| Net income for the year attributable to the parent | | 610 | 2,121 |
| Dividends and other remuneration | | (153) | (153) |
| Other equity instruments | | 995 | 1,024 |
| SHAREHOLDERS' EQUITY | 4.1 | 29,913 | 30,197 |
| Hedging instruments | | (148) | (163) |
| Translation differences | | (754) | (241) |
| OTHER ACCUMULATED COMPREHENSIVE PROFIT/(LOSS) | | (902) | (404) |
| MINORITY INTERESTS | | 273 | 270 |
| **EQUITY** | | **29,284** | **30,063** |
| Grants | | 4 | 4 |
| Non-current provisions | | 4,786 | 4,829 |
| Non-current financial debt | 4.2 | 8,999 | 10,080 |
| Deferred tax liabilities | | 1,005 | 1,051 |
| Other non-current liabilities | | 1,756 | 1,795 |
| **NON-CURRENT LIABILITIES** | | **16,550** | **17,759** |
| Liabilities linked to non-current assets held for sale | | 1 | 1 |
| Current provisions | | 498 | 518 |
| Current financial liabilities | 4.2 | 5,046 | 4,206 |
| Trade payables and other payables: | | 6,811 | 7,310 |
| a) Suppliers | | 2,478 | 2,738 |
| b) Other receivables | | 4,125 | 4,280 |
| c) Current income tax liabilities | | 208 | 292 |
| **CURRENT LIABILITIES** | | **12,356** | **12,035** |
| **TOTAL EQUITY AND LIABILITIES** | | **58,190** | **59,857** |

Notes 1 to 4 are an integral part of the consolidated balance sheet.

**Repsol S.A. and Investees comprising the Repsol Group**
**Income statement corresponding to the first quarter of 2018 and 2017**

| | Note | Q1 2018 (€ Million) | Q1 2017 [(1)] (€ Million) |
|---|---|---|---|
| Sales | | 10,977 | 10,024 |
| Income from services rendered and other income | | 38 | 97 |
| Variation in the inventories of finished products and semi-finished products | | 190 | 143 |
| Reversals of impairment losses and gains on disposal of non-current assets | | 2 | 193 |
| Other operating income | | 315 | 216 |
| OPERATING INCOME | 4.5 | 11,522 | 10,673 |
| Cost of sales | | (8,304) | (7,234) |
| Personnel expenses | | (431) | (460) |
| Other operating expenses | | (1,404) | (1,300) |
| Depreciation of property, plant and equipment | | (517) | (599) |
| Provision for impairment losses and losses on disposal of non-current assets | | (70) | (236) |
| EXPLORATION EXPENSES | | (10,726) | (9,829) |
| **OPERATING INCOME** | | **796** | **844** |
| Finance income | | 46 | 44 |
| Finance costs | | (146) | (163) |
| Change in fair value of financial instruments | | (17) | 34 |
| Exchange gains (losses) | | 51 | (35) |
| Impairment and gains (losses) on disposal of financial instruments | | (15) | - |
| FINANCIAL INCOME | | (81) | (120) |
| INCOME ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – net of tax | 4.4 | 138 | 80 |
| **PROFIT/(LOSS) BEFORE TAX** | | **853** | **804** |
| Income tax | 4.6 | (306) | (166) |
| **INCOME FROM CONTINUING OPERATIONS** | | **547** | **638** |
| INCOME ATTRIBUTED TO NON-CONTROLLING INTERESTS FROM CONTINUING OPERATIONS | | (5) | (9) |
| **INCOME ATTRIBUTABLE TO THE PARENT FROM CONTINUING OPERATIONS** | | **542** | **629** |
| INCOME FROM DISCONTINUED OPERATIONS – NET OF TAX | 1.3 | **68** | **60** |
| **INCOME ATTRIBUTABLE TO THE PARENT FROM DISCONTINUED OPERATIONS** | | **68** | **60** |
| **TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT** | **3.1** | **610** | **689** |

| | | | |
|---|---|---|---|
| **EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT** | **4.9** | **Euros / Share** | |
| Base | | 0.39 | 0.44 |
| Diluted | | 0.39 | 0.44 |

(1) Includes the amendments required in terms of the interim condensed consolidated financial statements for the first quarter of 2017 (see Note 2"*Basis of presentation*") concerning the agreement to sell the stake in Gas Natural (see Note 1.3).

Notes 1 to 4 are an integral part of the consolidated income statement.

## Repsol S.A. and Investees comprising the Repsol Group
## Statement of recognized profit or loss corresponding to the first quarter of 2018 and 2017

| | € Million | |
|---|---|---|
| | Q1 2018 | Q1 2017 |
| **CONSOLIDATED NET INCOME FOR THE YEAR [(1)]** | **615** | **698** |
| Actuarial profit and loss | 2 | (1) |
| Stake in the investments in associates and joint ventures | 2 | - |
| Tax effect | - | - |
| **OTHER COMPREHENSIVE PROFIT/(LOSS) (Items not reclassifiable to income)** | **4** | **(1)** |
| **Financial assets available for sale** | **-** | **1** |
| Valuation profit and loss | - | 1 |
| **Cash flow hedging** | **14** | **9** |
| Valuation profit and loss | 8 | - |
| Amounts transferred to the income statement | 6 | 9 |
| **Translation differences** | **(509)** | **(216)** |
| Valuation profit and loss | (509) | (216) |
| **Stake in the investments in associates and joint ventures** | **-** | **(2)** |
| Valuation profit and loss | - | (2) |
| **Tax effect** | **(5)** | **(12)** |
| **OTHER COMPREHENSIVE PROFIT/(LOSS) (Items reclassifiable to income)** | **(500)** | **(220)** |
| **TOTAL OTHER COMPREHENSIVE PROFIT/(LOSS)** | **(496)** | **(221)** |
| **TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR** | **119** | **477** |
| a) Attributable to the parent | 116 | 469 |
| b) Attributable to minority interests | 3 | 8 |

[(1)] Corresponds to the total of the following sections of the consolidated income statement: "*Net income from continuing operations*" and "*Net income from interrupted operations attributable to the parent*".

Notes 1 to 4 are an integral part of the consolidated statement of recognized income and expenses.

**Repsol S.A. and Investees comprising the Repsol Group**
**Statement of changes in equity at March 31, 2018 and 2017**

| | **Equity attributed to the parent and other equity instrument holders** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Shareholders' equity** | | | | | | | |
| € Million | Share capital | Share premium, reserves and dividends | Treasury shares and own equity investments | Net income for the year attributable to the parent | Other equity instruments | Other accumulated comprehensive profit/(loss) | Minority interests | **Equity** |
| **Closing balance at 12/31/2016** | **1,496** | **24,232** | **(1)** | **1,736** | **1,024** | **2,380** | **244** | **31,111** |
| **Total recognized gains/(losses)** | **-** | **(1)** | **-** | **689** | **-** | **(219)** | **8** | **477** |
| **Transactions with shareholders or owners** | | | | | | | | |
| Treasury share transactions (net) | - | (1) | (127) | - | - | - | | (128) |
| Increases/(Reductions) due to scope | - | - | - | - | - | - | - | - |
| Other transactions with shareholders or owners | - | - | - | - | - | - | - | - |
| **Other changes in equity** | | | | | | | | |
| Transfers between equity items | - | 1,736 | - | (1,736) | - | - | - | - |
| Subordinated perpetual bonds | - | (7) | - | - | (29) | - | - | (36) |
| Other variations | - | 2 | - | - | - | (1) | - | 1 |
| **Closing balance at 03/31/2017** | **1,496** | **25,961** | **(128)** | **689** | **995** | **2,160** | **252** | **31,425** |
| **Total recognized gains/(losses)** | **-** | **3** | **-** | **1,432** | **-** | **(2,566)** | **24** | **(1,107)** |
| **Transactions with shareholders or owners** | | | | | | | | |
| Expansion/(Reduction) of capital | 60 | (60) | - | - | - | - | - | - |
| Distribution of dividends | - | - | - | - | - | - | (5) | (5) |
| Treasury share transactions (net) | - | 1 | 83 | - | - | - | - | 84 |
| Increases/(Reductions) due to scope | - | - | - | - | - | - | - | - |
| Other transactions with shareholders or owners | - | (342) | - | - | - | - | - | (342) |
| **Other changes in equity** | | | | | | | | |
| Subordinated perpetual bonds | - | (22) | - | - | 29 | - | - | 7 |
| Other variations | - | | - | - | - | 2 | (1) | 1 |
| **Closing balance at 12/31/2017** | **1,556** | **25,541** | **(45)** | **2,121** | **1,024** | **(404)** | **270** | **30,063** |
| Impact of new standards (see Note 2.3) | - | (356) | - | - | - | - | - | (356) |
| **Adjusted opening balance** | **1,556** | **25,185** | **(45)** | **2,121** | **1,024** | **(404)** | **270** | **29,707** |
| **Total recognized gains/(losses)** | - | 4 | - | 610 | - | (498) | 3 | 119 |
| **Transactions with shareholders or owners** | | | | | | | | |
| Treasury share transactions (net) | - | - | (504) | - | - | - | - | (504) |
| **Other changes in equity** | | | | | | | | |
| Transfers between equity items | - | 2,121 | - | (2,121) | - | - | - | - |
| Subordinated perpetual bonds | - | (7) | - | - | (29) | - | - | (36) |
| Other variations | - | (2) | - | - | - | - | - | (2) |
| **Closing balance at 03/31/2018** | **1,556** | **27,301** | **(549)** | **610** | **995** | **(902)** | **273** | **29,284** |

Notes 1 to 4 are an integral part of the consolidated statement of changes in equity.

## Repsol S.A. and Investees comprising the Repsol Group
**Statement of cash flows corresponding to the first quarter of 2018 and 2017**

| | € Million | |
|---|---|---|
| | Q1 2018 | Q1 2017 |
| **Net income before tax** | **853** | **804** |
| **Adjustments to profit/(loss):** | **529** | **655** |
| Depreciation of property, plant and equipment | 517 | 599 |
| Other adjustments to net profit/(losses) | 12 | 56 |
| **Changes in working capital** | **(385)** | **(559)** |
| **Other cash flows from/(used in) operating activities:** | **(218)** | **(221)** |
| Dividends received | 54 | 8 |
| Income tax receipts/(payments) | (178) | (115) |
| Other receipts/(payments) of operating activities | (94) | (114) |
| **CASH FLOW FROM OEPRATING ACTIVITIES** | **779** | **679** |
| **Payments on investments:** | **(566)** | **(552)** |
| Group companies and associates | (4) | (50) |
| Property, plant and equipment, intangible assets and investment property | (532) | (405) |
| Other financial assets | (30) | (97) |
| **Proceeds from divestments:** | **8** | **12** |
| Group companies and associates | 1 | (18) |
| Property, plant and equipment, intangible assets and investment property | 7 | 29 |
| Other financial assets | - | 1 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **(558)** | **(540)** |
| **Receipts/(payments) on equity instruments:** | **(404)** | **(165)** |
| Acquisition | (407) | (167) |
| Disposal | 3 | 2 |
| **Receipts/(payments) on financial liabilities:** | **(157)** | **(591)** |
| Issued | 3,378 | 3,174 |
| Returned and depreciation | (3,535) | (3,765) |
| **Payments of shareholder remuneration and other equity instruments** | **(196)** | **(138)** |
| **Other cash flows from / (used in) financing activities:** | **(221)** | **(209)** |
| Interest paid | (185) | (232) |
| Other receipts/(payments) of financing activities | (36) | 23 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | **(978)** | **(1,103)** |
| **EFFECT OF CHANGES IN EXCHANGE RATE** | **(20)** | **(1)** |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(777)** | **(965)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **4,601** | **4,687** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **3,824** | **3,722** |
| Cash and banks | 3,140 | 2,986 |
| Other financial assets | 684 | 736 |

Notes 1 to 4 are an integral part of the consolidated statement of cash flows at March 31, 2018.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

### TABLE OF CONTENTS

| Note No. | Section | Page |
|---|---|---|
| **(1)** | **GENERAL INFORMATION** | **8** |
| | 1.1 About the condensed consolidated financial statements | 8 |
| | 1.2 About the Repsol Group | 8 |
| | 1.3 Main changes in the scope of consolidation | 8 |
| **(2)** | **BASIS OF PRESENTATION** | **9** |
| | 2.1 General principles | 9 |
| | 2.2 Comparative information | 9 |
| | 2.3 Application of new accounts standards | 9 |
| | 2.4 Changes to accounting judgments and estimates | 12 |
| | 2.5 Seasonality | 13 |
| | 2.6 Segment reporting | 13 |
| **(3)** | **SEGMENT REPORTING** | **15** |
| | 3.1 Main figures and performance indicators | 15 |
| | 3.2 Macroeconomic environment | 16 |
| | 3.3 Results, cash flow and financial position | 17 |
| | 3.4 Information by geographic area | 20 |
| **(4)** | **OTHER INFORMATION** | **21** |
| | 4.1 Equity | 21 |
| | 4.2 Financial instruments | 22 |
| | 4.3 Property, plant and equipment | 23 |
| | 4.4 Investments accounted for using the equity method | 23 |
| | 4.5 Other operating income/(expenses) | 24 |
| | 4.6 Tax situation | 24 |
| | 4.7 Litigation risks | 25 |
| | 4.8 Geopolitical risks | 25 |
| | 4.9 Earnings per share | 27 |
| | 4.10 Other information | 27 |
| | **APPENDIX:** | |
| | **APPENDIX I: COMPOSITION OF THE GROUP** | **28** |
| | **APPENDIX II: OTHER DETAILED INFORMATION** | **29** |
| | **APPENDIX III: ALTERNATIVE PERFORMANCE MEASURES** | **32** |

## (1) GENERAL INFORMATION

### 1.1 About the condensed consolidated financial statements

The accompanying condensed consolidated interim financial statements of Repsol, S.A. and its investees, comprising the Repsol Group, present fairly the Group's equity and financial position at March 31, 2018, as well as the Group's consolidated earnings performance, the changes in the consolidated equity and the consolidated cash flows that have occurred in the three months preceding said date.

These interim financial statements were approved by the Board of Directors of Repsol, S.A. at its meeting of May 3, 2018.

Owing to the limitations on the information provided in interim financial statements, these should be read jointly with the 2017 consolidated financial statements (see Note 2.1).

### 1.2 About the Repsol Group

Repsol constitutes an integrated group of oil and gas (hereinafter "Repsol", "Repsol Group" or "Group") that is engaged in all the activities relating to the oil and gas industry, including exploration, development and production of crude oil and natural gas, transportation of oil products, liquefied petroleum gas (LPG) and natural gas, refining, the production of a wide range of oil products and the retailing of oil products, oil derivatives, petrochemicals products, LPG, natural gas and liquefied natural gas (LNG).

The Repsol Group's consolidated financial statements include its investments in all its subsidiaries, associates and joint arrangements. Annex I of the consolidated financial statements at December 31, 2017 detail the main companies that form part of the Repsol Group and that formed part of its scope of consolidation on this date. Annex I of these interim financial statements contains the main changes in the composition of the Group that have taken place during the first three months of 2018.

Activities performed by Repsol, S.A. and its investee companies are subject to far-reaching regulations, contained in Appendix IV of the consolidated financial statements at December 31, 2017.

### 1.3 Main changes in the scope of consolidation

***Agreement for the sale of the stake in Gas Natural SDG, S.A.***

On February 22, 2018, Repsol, S.A. reached an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds managed by CVC Capital Partners (CVC), for the sale of 200,858,658 shares in Gas Natural SDG, S.A. (Gas Natural), amounting to 20.072% of its share capital for the sum of €3,816,314,502, which converts to a price of €19 per share. The estimated capital gains on the disposal of this stake would come to approximately €350 million before tax.

As a result of the indicated agreement, the investment in Gas Natural is presented under "*Non-current assets held for sale*" of the consolidated balance sheet and the income generated by this stake prior to 22 February has been reclassified to "*Income from discontinued operations net of tax*" on the consolidated income statement (€68 million, €60 million of the first quarter of 2017).

There were no cash flows from discontinued operations related to the stake in Gas Natural in the first quarter of 2018 and 2017.

As at the date that these financial statements were approved, the completion of this transaction was dependent on the fulfillment of the following conditions: i) the attainment, in a period of no more than six months following the completion of the agreement, the corresponding authorizations from the competent authorities in Mexico, South Korea, Japan and Germany for the concentration that the operation implies; and ii) the express or tacit approval of the Central Bank of Ireland concerning the indirect acquisition of a significant stake in *Clover Financial & Treasury Services Ltd*, in a period of no more than six months.

## (2) BASIS OF PRESENTATION

### 2.1 General principles

These condensed consolidated interim financial statements have been prepared using the accounting records of investee companies that comprise the Group and are presented in line with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) at March 31, 2018[1] and, specifically, pursuant to the requirements established by International Accounting Standard IAS 34 "*Interim financial information"* in addition to other provisions in the applicable regulatory framework.

According to the provisions of IAS 34, this interim financial information is prepared exclusively to update the content of the most recent consolidated financial statements published, placing an emphasis on new activities, events and circumstances that have taken place during the first three months of the year, without duplicating the information published previously in the consolidated financial statements for the preceding year. To facilitate the correct understanding of information contained in these interim financial statements and given that they do not contain information required by comprehensive financial statements prepared pursuant to IFRS-EU, they must be read in conjunction with the Repsol Group's 2017 consolidated financial statements, which shall be submitted to the Shareholder Annual Meeting of Repsol S.A. on May 11, 2018 and are available at www.repsol.com.

The financial statements are stated in millions of euros (unless another unit is specified).

### 2.2 Comparative information

Further to the agreement to sell the stake in Gas Natural set out in Note 1.3, the income statement corresponding to 2017, in addition to the corresponding Note, have been restated for the purposes of comparison with the information published in the consolidated interim financial statements for the first quarter of 2017.

Furthermore, earnings per share for the first quarter of 2017 have been restated as the average number of outstanding shares considered in the calculation should be based on the new number of shares issued after the capital increase carried out as part of the compensation scheme to shareholders known as "*Repsol Flexible Dividend*" described in Note 4.1 "*Equity*".

### 2.3 Application of new accounts standards

#### IFRS 9 *Financial instruments*

IFRS 9 *Financial Instruments* has been applied starting January 1, 2018 without restating the 2017 information used for the purposes of comparison. The impacts of this first application, which have been taken directly to equity, are as follows:

[1] The following standards are applicable from January 1, 2018: i) IFRS 9 *Financial Instruments*; ii) IFRS 15 *Revenue from Contracts with Customers*; iii) Clarifications to IFRS 15 *Revenue from Contracts with Customers*; iv) Amendments to IFRS 4, Application of IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*; v) Annual Improvements to IFRS, *2014-2016 Cycle*; vi) Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions;* vii) Amendments to IAS 40 *Transfers of Investment Property;* and viii) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*. The effects of the application of these standards are explained in note 2.3.

Impairment of assets:

The application of a credit risk impairment model based on expected loss[1] had a negative impact of 433 million euros mainly due to financial assets related to Venezuela. This impact has been recognized under "*Retained earnings and other reserves*" in the balance sheet as follows:

| | 12/31/2017 | IFRS 9 Adjustment | 01/01/2018 |
|---|---|---|---|
| Investments accounted for using the equity method (Note 4.4) | 9,268 | (12) | 9,256 |
| Non-current financial assets [(i)] | 2,038 | (289) | 1.749 |
| Other non-current assets | 472 | (40) | 432 |
| Trade receivables and other accounts receivable | 5,912 | (73) | 5,839 |
| Current and non-current provisions | 5,347 | (19) | 5,328 |
| **Impact on net assets** | | **(433)** [(ii)] | |
| Deferred tax assets | | 85 | |
| **Effect on Equity** | | **(348)** | |

[(i)] Includes loans granted to joint ventures.
[(ii)] Accumulated losses are presented, when appropriate, less the corresponding asset account.

Classification of financial assets:

Financial assets have been classified at January 1, 2018 as financial assets measured at fair value with changes through profit or loss, financial assets measured at amortized cost or financial assets measured at fair value with changes in "Other comprehensive income" depending on the nature of the contractual flows of the assets and the business model applied by the company[2].

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

| *Instrument type* | **Classification 12/31/2017 (IAS 39)** | **Classification 1/1/2018 (IFRS 9)** | **Amount (€ Million)** |
|---|---|---|---|
| Equity Instruments[(1)] | Available for sale | FV[2] with changes in other comprehensive income | 118 |
| Derivatives | Held for trading | FV[2] with changes through profit and loss | 79 |
| Loans | Loans and receivables | Amortized cost | 2,106 |
| Cash and cash equivalents | Held to maturity investments | Amortized cost | 4,593 |
| Other instruments | FV[2] with changes through profit and loss | FV[2] with changes through profit and loss | 62 |

[1] The Group applies the simplified approach to recognize the expected credit loss during the lifetime of its trade receivables accounts. It has its own risk measurement models that it applies to its customers and expected loss estimation models based on the likelihood of default, the exposed balance and its estimated severity, considering the information available on each customer (sector of activity, payment performance, financial information, future outlook, etc.). The model includes d as a general criteria a default threshold of more than 180 days for it to be considered that an objective evidence of impairment has occurred. These criteria are applied in the absence of other objective evidence of a impairment, such as bankruptcy proceedings, etc. Other financial instruments, mainly specific loans and financial guarantees granted to joint ventures, are subject to individual monitoring for the purposes of establishing when, as applicable, there may have been a significant increase of the credit risk or a default. In relation to Venezuela, faced with the circumstances in the country, the Group has used different severity scenarios to quantify expected loss according to IFRS 9.

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

(1)Portfolio of equity investments in companies neither consolidated nor accounted for using the equity method.
(2) FV: Fair value

NOTE: Does not include "Other non-current assets" and "Trade and other receivables" on the consolidated balance sheet, which, at December 31, 2017, came to €470 million under long-term and €5,161 million under short term mainly corresponding to accounts receivable from commodity sale agreements (whereas balance sheet liabilities include €1,028 million from accounts payable on commodity purchase agreements , which are measured at FV[2] with changes through profit and loss with the rest corresponding mainly to trade receivable measured at amortized cost.

As regards of financial liabilities, there has been no impact on their classification or measurement as a result of the application of IFRS 9.

Accounting hedges and derivatives:

The Group has chosen to apply IFRS 9 to its hedging operations, despite the standard providing for the option of continuing to apply IAS 39 until the IASB completes its "Dynamic risk management" project, given the greater flexibility offered by the new standard in terms of hedge accounting.

The new standard: (i) eliminates the need for a retrospective assessment for the purposes of assessing the continuity of hedge accounting; (ii) provides for the mitigation of accounting asymmetries associated with commodity marketing and provisioning agreements and derivatives used as an economic hedge for them, by applying the fair value option to these agreements and; (iii) offers wider flexibility in the accounting treatment of hedges, specifically, in terms of instruments that can be used as hedging instruments and in terms of transactions that can be the hedged item.

There has been no impact as a result of the initial application of IFRS 9 in terms of hedge accounting.

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

IFRS 15 *Revenue from contracts with customers* and amendments to the other IFRS affected by this standard have been applied starting January 1, 2018 without restating the 2017 information used for the purposes of comparison.

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and applies to all income generated from contracts with customers, unless these contracts fall within the scope of other standards. Pursuant to the new accounting requirements, revenue must be identified, classified and accrued for each of the performance obligations. Among other issues, the standard also develops the accounting criteria for activating the incremental costs of obtaining a contract with a customer.

The Group has reviewed the types of contracts with customers (mainly sales of crude oil, gas, naphtha, petroleum, chemical and petrochemical products) and has identified the following impacts from application of IFRS 15, which have been recognized in the balance sheet item *"Retained earnings and other reserves":*

| | 12/31/2017 | IFRS 15 Adjustment | 01/01/2018 |
|---|---|---|---|
| Other non-current liabilities [1] | (1,795) | (20) | (1,815) |
| Trade payables and other accounts payable [1] | (7,310) | (4) | (7,314) |
| Investments accounted for using the equity method (Note 4.4) | 9,268 | 9 | 9,277 |
| **Impact on net assets and liabilities** | | (15) | |
| Deferred tax assets | | 6 | |
| **Effect on Equity** | | (9) | |

(1) In contracts for the bulk supply of liquefied petroleum gases, two distinct performance obligations have been identified: (i) the sale of liquefied gas, which takes place at a specific moment in time; and (ii) maintenance services, which are provided generally over the life of the contract, giving rise to a contractual liability that is recognized under "*Other non-current assets*"

and "*Trade payables and other accounts payable*" for services pending, which at January 1, 2018, came to €20 million and €4 million, respectively, and an accumulated loss of €18 million after tax, recognized under "*Retained earnings and other reserves*".

For specific *Upstream* contracts and for payment of Group tax, production deliveries are made to national oil companies which, once control thereof has been transferred, can freely sell the product on the market. In accordance with the economic worth of these transactions, the monetary value of these production volumes is recognized under the income statement item "Sales" (previously under "Services rendered and other income"). The amounts recognized in the first quarter of 2018 under "Sales" for this concept come to €148 million.

In terms of the incremental costs of obtaining a contract with a customer, the costs that the Group had previously recognized under "*Intangible assets*" on the balance sheet as reflagging costs have been taken into consideration. The net balance at January 1, 2018 for this item is €26 million.

Finally, in terms of the additional breakdowns of information, net revenue (corresponding to the sum of the "*Sales*" and "*Services rendered and other income*" have been included by geographical area (see Note 4.5).

## 2.4 Changes to accounting judgments and estimates

The preparation of the interim financial statements requires the undertaking of judgments and estimates that affect the valuation of assets and liabilities recognized, the presentation of contingent assets and liabilities and income and expenses recognized over the period. Results may be affected significantly depending on the estimates made.

These estimates are based on the best information available, as described in Note 3 "*Accounting judgments and estimates*" of the 2017 consolidated financial statements. In 2018, the following changes to accounting estimates were made prospectively effective January 1, 2018:

(i) the change in the method for calculating expected loss, pursuant to the provisions of the preceding section; and

(ii) With respect to the amortization and depreciation of specific assets associated with hydrocarbon exploration and production operations, the production unit criterion (see "Activity-specific accounting policies" in Note 3 of 2017 financial statements) applies from January 1, 2018 for all reserve amounts expected to be produced by the investments made (proven reserves[1] plus probable reserves, or proven reserves plus probable developed reserves). Repsol considers that the new amortization ratio will provide a better reflection of the consumption pattern of the economic benefits of this class of assets, having been applied from January 1 with the availability of the necessary reserves information and the completion of the relevant asset performance analyses.

The impact of this change in estimation method in the first three months of 2018 comes to -€26 million and €85 million, respectively.

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[1] Reserves are classified as follows:

Proven reserves: Proven reserves (1P scenario) are quantities of crude oil, natural gas and liquids from natural gas that, based on up-to-date information, are estimated to be recovered with reasonable certainty. There should be at least a probability of 90% that the quantities recovered will equal or exceed the 1P estimate.

Probable reserves: Probable reserves are those additional reserves, which in added to proven reserves make up the 2P scenario. There should be at least a 50% probability that the quantities recovered will equal or exceed the 2P estimate. This scenario reflects the best estimate of reserves.

Repsol applies the criteria established by "*SPE-PRMS (SPE - Society of Petroleum Engineers)*" system, where full definitions may be consulted.

## 2.5 Seasonality

Among the Group's activities, the liquefied petroleum gas (LPG) and natural gas activities involve a greater degree of seasonality given their association with climate conditions, with a higher degree of activity in winter and whereas activity drops off in the Northern hemisphere's summer.

## 2.6 Segment reporting

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

Segment reporting at the Group included in Note 3 is presented based on the disclosure requirements established under IFRS 8 *Operating segments*.

The definition of the Repsol Group's business segments is based on the division of the different activities performed that generate income and expenses, in addition to the organizational structure approved by the Board of Directors to manage the business. Taking these segments as a reference, Repsol's management team (Corporate Executive, E&P and Downstream Committees) analyzes the main operating and financial figures for the purpose of making decisions regarding the allocation of resources and the assessment of the Company's performance.

The Group's operating segments are:

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

Finally, *Corporate and other* includes activities not allocated to previous business segments and, in particular, corporate operating costs and financial profit/loss, in addition to inter-segment consolidation adjustments.

The Group has not grouped segments for the purposes of presenting information.

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

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

The Current Cost of Supply (CCS) is commonly used in this industry to present the results of Downstream businesses which must work with huge inventories subject to continual price fluctuations is not an accepted European accounting regulation, yet does enable the comparability with other sector companies as well as monitoring businesses independently of the impact of price variations on their inventories. Under Income at CCS, the cost of volumes sold during the reporting period is calculated using the costs of procurement and production incurred during that same period. As a result of the foregoing, Adjusted Net Income does not

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1 In the segment reporting model, joint ventures are consolidated proportionally in accordance with the Group's percent holding. See Note 12 "*Investments accounted for using the equity method*" and Appendix I of the 2017 Consolidated Financial Statements, where the Group´s main joint ventures are identified.

2 Corresponds to Petrocarabobo, S.A. (Venezuela), an associate of the Group.

include the so-called Inventory Effect. This Inventory Effect is presented separately, net of tax and minority interests, and corresponds to the difference between Income at CCS and that arrived at using the Weighted Average Cost approach, which is the method used by the Company to determine its earnings in accordance with European accounting regulations.

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

Following the agreement reached on February 22, 2018 for the sale of the 20.072% stake in Gas Natural (see Note 1.3), its income prior to this date have been recognized as interrupted operations under "*Special items*", previously recognized under *"Corporate and other",* restating the comparative figures in terms of those published in the interim financial statements for the first quarter of 2017. Furthermore, the amount corresponding to the investment in Gas Natural has not been considered in the calculation of balance sheet figures booked as capital employed, rather they have been recognized under "*Non-current assets held for sale*" in the consolidated balance sheet.

For each of the figures presented by segment (adjusted net income, inventory effect, special items, etc.), Appendices II and III contain the items required for reconciliation with the corresponding figures prepared according to IFRS-EU.

# (3) SEGMENT REPORTING[1]

## 3.1 Main figures and performance indicators

| **Financial indicators [1]** | **Q1 2018** | **Q1 2017** |
|---|---|---|
| **Results** | | |
| Adjusted net income | 616 | 570 |
| Net income | 610 | 689 |
| Earnings per share (€/share) | 0.39 | 0.44 |
| EBITDA | 1,804 | 1,844 |
| Investments | 598 | 557 |
| Capital employed [2] | 32,829 | 36,390 |
| ROACE (%) [3] | 8.3 | 8.5 |
| **Cash and debt** | | |
| Free cash flow | 319 | 120 |
| Net debt (ND) | 6,836 | 8,345 |
| ND / EBITDA (x times) [4] | 0.9 | 1.1 |
| ND / Capital employed (%) | 20.8 | 23.0 |
| Debt interest / EBITDA (%) | 4.0 | 5.1 |
| **Shareholder remuneration** | | |
| Shareholder remuneration (€/share) [5] | 0.39 | 0.34 |

| **Stock market indicators** | **Q1 2018** | **Q1 2017** |
|---|---|---|
| Share price at period-end (€/share) | 14.4 | 14.5 |
| Period average share price (€/share) | 14.7 | 14.0 |
| Market capitalization at year-end (€ million) | 22.436 | 21,660 |

| **Macroeconomic environment** | **Q1 2018** | **Q1 2017** |
|---|---|---|
| Brent average ($/bbl) | 66.8 | 53.7 |
| WTI average ($/bbl) | 62.9 | 51.8 |
| Henry Hub average ($/MBtu) | 3.0 | 3.3 |
| Algonquin average ($/MBtu) | 8.0 | 4.4 |
| Exchange rate average ($/€) | 1.23 | 1.06 |

| **Our business performance [1]** | **Q1 2018** | **Q1 2017** |
|---|---|---|
| **Upstream** | | |
| Oil and gas net output (kboe/d) | 727 | 693 |
| Net production of liquids (kbbl/d) | 269 | 258 |
| Net production of gas (kboe/d) | 458 | 435 |
| Average crude oil realization prices ($/bbl) | 60.9 | 49.4 |
| Average gas realization price ($/kscf) | 3.5 | 3.1 |
| EBITDA | 1,101 | 921 |
| Adjusted net income | 320 | 224 |
| Investments | 452 | 438 |
| **Downstream** | | |
| Distillation utilization Spanish Refining (%) | 92.5 | 86.9 |
| Conversion utilization Spanish Refining (%) | 104.4 | 97.0 |
| Refining margin indicator Spain ($/bbl) | 6.6 | 7.1 |
| Oil product sales (kt) | 12,096 | 12,064 |
| Petrochemical product sales (kt) | 688 | 712 |
| LPG sales (kt) | 437 | 436 |
| Gas sales in North America (Tbtu) | 142.8 | 155.4 |
| EBITDA | 733 | 961 |
| Adjusted net income | 425 | 500 |
| Investments | 138 | 114 |

| **Other indicators** | **Q1 2018** | **Q1 2017** |
|---|---|---|
| **People** | | |
| No. employees [6] | 25,099 | 25,357 |
| New employees [7] | 784 | 594 |
| **Safety and environment** | | |
| Frequency rate [8] | 0.78 | 0.71 |
| Total recordable incident rate [9] | 1.52 | 1.43 |
| Annual $CO_2$ emission reduction (thousand tons)[10] | 50.93 | 64.30 |

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

(1) Where applicable, figure shown in million euros.
(2) Capital employed from continuing operations.
(3) The ROACE has been annualized by extrapolating the data for the period.
(4) The EBITDA has been annualized by extrapolating the data for the period.
(5) The fixed price guaranteed by Repsol for the bonus share rights awarded under the "Repsol Flexible Dividend" program (see Note 4.1).
(6) Number of employees that belong to companies in which Repsol establishes people management policies and guidelines, irrespective of the type of contract (permanent, temporary, partially retired, etc.).
(7) Only permanent or temporary employees with no prior working relationship with the company are considered to be new hires. The % of permanent employees among new recruits corresponding to the first quarter of 2018 and 2017 comes to 43% in both years.
(8) Overall Lost Time Injury Frequency Rate with sick leave (number of days lost and fatal accidents recorded over the year, per million work hours). The figure for 2017 is annual.
(9) Total Recordable Incident Rate (TRIR): number of accidents without lost days, with lost days and fatal accidents over the year, per million work hours. The figure for 2017 is annual.
(10) $CO^2$ reduction compared to 2010 baseline.

[1] All the information provided in this Note, unless stated otherwise, has been produced pursuant to the Group's reporting model (see Note 2.6). Some of the figures are classified as Alternative Performance Metrics (APMs) in accordance with European Securities Markets Authority (ESMA) guidelines (see Appendices II and IV).

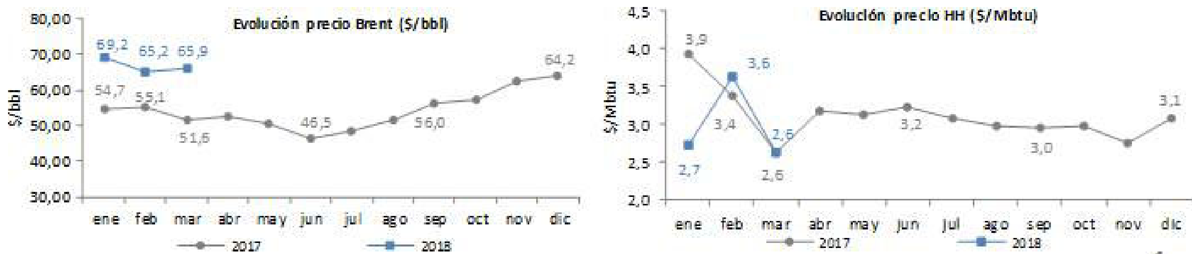
## 3.2 Macroeconomic environment

The **global economy** experienced a notable upturn, growing by 3.8% in 2017 after two consecutive years of deceleration. Furthermore, as the improvement in global activity was synchronized, affecting both developed and emerging economies, it would appear more sustainable, driving investment and trade. Despite the upturn in activity, inflation levels were contained, allowing monetary policies to very gradually return to normal.

The outlook for 2018, based on the latest forecasts of the International Monetary Fund (IMF) (World Economic Outlook April 2018), suggest a continuation of these global trends, predicting world growth of 3.9% in 2018, with an increase in emerging countries that produce raw materials and, in developed countries, the U.S. as a result of the tax stimulus.

Furthermore, there was a gradual depreciation of the US **dollar** during 2017, which has persisted in the first half of 2018 given the expectation of growing tax and foreign deficits in the U.S. economy. However, as the U.S. is further along in the economic cycle, the larger increase in rates in this country may serve to slow down this trend.

**Change in the average monthly Brent and Henry Hub price**




On the **crude oil** market, at the end of 2017, the pace of the balance sheet's adjustment sped up, with significant corrections recorded in inventory levels both in the OECD region and floating inventories. Furthermore, the rise can also be traced to: the agreement reached by the OPEC and non-OPEC countries to extend commitments to scale back production until the end of 2018; and unplanned shutdowns of the Keystone oil pipeline in the US in November and the Forties oil pipeline in the North Sea in December.

This upward trend continued in early 2018, hitting a high of $70.5/barrel at the end of business on January 24. Prior to month end, price trends were significantly influenced by: market expectations that the OPEC cutback policy was overstressing the balance of supply and demand; and, in terms of geopolitics, the increase in risk in Iran resulting from the military exercise with ballistic missiles, which could place the nuclear agreement at risk, particularly concerning the U.S.

At the start of February, the oil market experienced a significant correction in line with the course of international financial markets, which saw Brent prices trading at US$62.6/barrel on February 12. The 11% drop in price was attributable in large part to the systemic risk caused by the securities markets. However, in terms of oil fundamentals, this fall in the price was backed, to some extent, by significant increases seen in U.S. production this year.

Through to mid-March, the price of Brent was stable at between US$64 and US$66 per barrel, before rallying to more than US$70/barrel. The upturn was initially in reaction to the growing tension between Saudi Arabia and Iran. However, the price stayed above US$69 for the rest of the month, both on account of statements made by Saudi Arabia accepting the idea of extending agreements to scale back production until 2019 and evidence of a significant decline in the production of crude oil in Venezuela and data signaling that global demand was performing well.

At the end of the quarter, the Brent price stood at an average of US$66.8/barrel, whilst the crude oil WTI price averaged out at US$62.9/barrel, a difference of US$3.9/barrel between the two.

The Henry Hub price of **natural gas** averaged at US$3/mmBtu in the first quarter of 2018, 9% down on the first quarter in 2017. The balance sheet adjustment that took place in 2017 was relaxed during the first quarter of 2018 against a backdrop that saw an increase in domestic dry gas production and a drop in domestic demand (essentially, residential/commercial and electrical production), as part of which the growth in exports (gas via pipeline and liquefied natural gas) served as the main support.

### 3.3 Results, cash flow and financial position

| | € Million | | |
|---|---|---|---|
| | **Q1 2018** | **Q1 2017 (1)** | **Variation** |
| Upstream | 320 | 224 | 43% |
| Downstream | 425 | 500 | -15% |
| Corporate and other | (129) | (154) | 16% |
| **ADJUSTED NET INCOME** | **616** | **570** | 8% |
| Inventory effect | (9) | 84 | -111% |
| Special items | 3 | 35 | -91% |
| **NET INCOME** | **610** | **689** | **-11%** |

(1) Includes the amendments required in terms of the interim condensed consolidated financial statements for the first quarter of 2017 (see Note 2"*Basis of presentation*") concerning the agreement to sell the stake in Gas Natural (see Note 1.3).

The results for the first quarter of 2018 (hereafter, Q1 18), compared to the same period in 2017 (hereafter, Q1 17), occurred in an **environment** marked by higher crude oil prices (Brent +24%), lower gas prices (Henry Hub -9%), the weakness of the dollar against the euro (-15%) and, in general terms, a less favorable international environment for industrial businesses (Refining and Chemicals).

This period, Repsol recorded an **Adjusted net income** of €616 million (+8% compared to Q1 17, driven by better results in *Upstream*), **Net income** of €610 million (-11% compared to Q1 17, due to the absence of inventory revaluation and divestments in Q1 18) and a **free cash flow** of €319 million (+166% compared to Q1 17), which enabled the company to end the quarter with **net debt** of €6,836 million (-18% with respect to Q1 17).

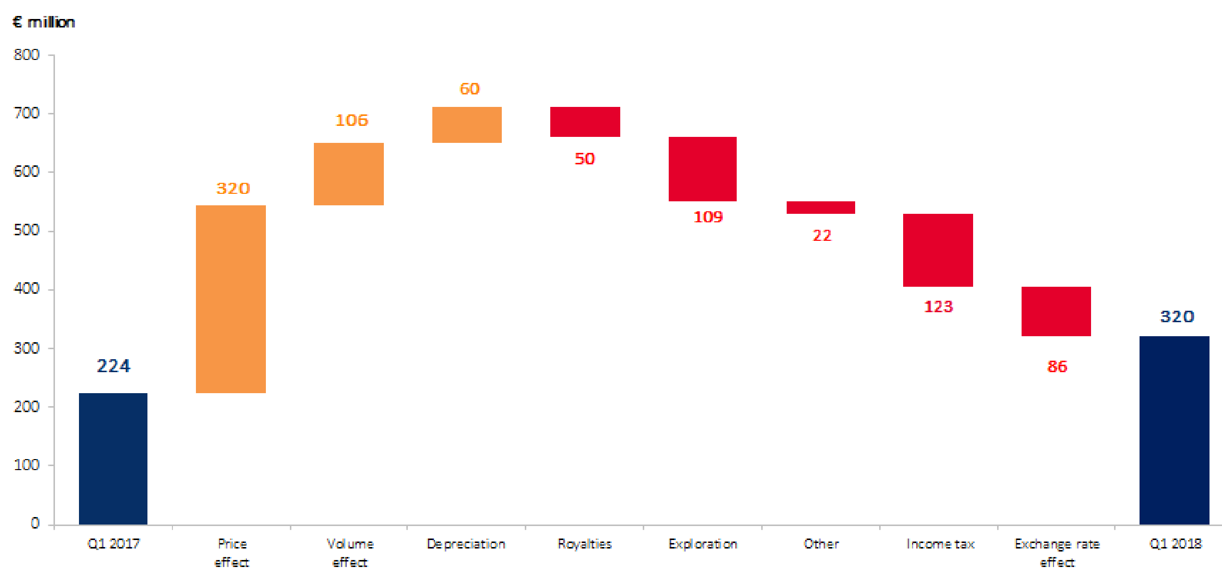
#### *Upstream*

Average **production** for the first quarter, 727 Kboe/d is 5% higher than in the same period in 2017. The higher level of production can be attributed to the commissioning of new wells (*Juniper*) and the increase in performance in Trinidad and Tobago, greater activity in Libya and the incorporation of new wells in the UK (*Shaw and Cayley*). These positive effects have been partially offset by the effect of the divestments made in Russia (SK) and Indonesia (Ogan Komering) in 2017, the drop in demand for gas in Bolivia and downtime in Peru caused by incidents.

In **exploration activity**, six exploratory wells, one of which returned positive results and five of which returned negative results, were completed in the first quarter. By the end of the quarter, four exploratory wells and one appraisal were still ongoing.

*Upstream* **Adjusted Net Income** amounted to €320 million, which is far higher than in the first quarter of the previous year (€224 million). This significant improvement was mainly due to the increase in the realization prices of crude oil and the higher volumes sold (Libya, Trinidad and Tobago, Norway and the UK), which have been partially offset by the increase in tax due to the improvement in operations, the negative impact of exchange rate due to the weakening of the dollar and, most remarkably, higher exploration costs as a result of depreciation and provision of wells and investments with a low chance of success. Additionally, the impact on results of the new depreciation formula calculation for productive assets (see Note 2.4) needs to be taken into consideration.

**Upstream adjusted net income variation Q1 2018 vs. Q1 2017**



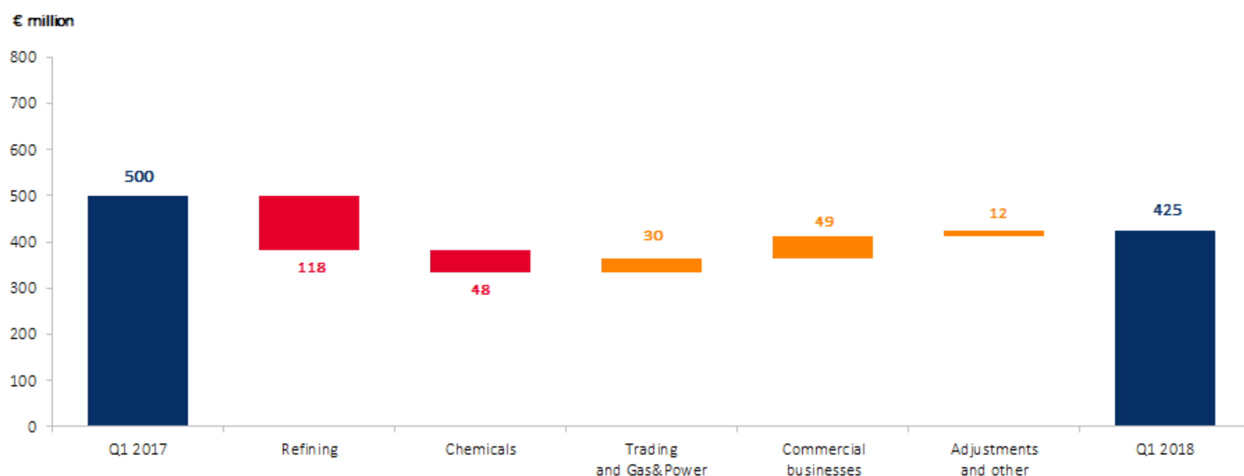

*Upstream* **EBITDA** amounted to €1,101 million, up 20% on the same period of the previous year, driven by the improvement in operating results.

**Capital expenditure** for the period (€452 million) is up 3% compared to 2017. This expenditure has mainly been allocated to investments in production and/or development assets, mostly in the US, Canada, Vietnam, Trinidad and Tobago, Norway, Malaysia and Indonesia, with a highlight on the acquisition of a 7.7% stake in the *Visund* field (Norway), operated by Statoil and with an expected production of about 10,000 barrels of oil equivalent per day.

### *Downstream*

Adjusted Net Income for the first quarter of 2018 amounted to €425 million, down on the same period of 2017.

**Downstream adjusted net income variation Q1 2018 vs. Q1 2017**



The change in income is mainly due to:

- In *Refining*, despite the increase in distillation owing to the better use of the plants, income has dropped as a result of lower unit margins, which have been affected by the international environment and the negative impact of exchange rates due to the weakening of the dollar, as well as higher amortization costs.

- In *Chemicals*, the drop in income can be attributed to the weakening of the international environment, mainly as a result of the increase in naphtha prices, as well as the decrease in sales and higher variable costs due to scheduled downtime and operating incidents.

- The improvement in results in *Trading and Gas&Power* can be attributed in large part to the larger margins of gas trading in North America, thanks to the high level of volatility of prices attributable to the low temperatures in the North-East USA during January.

- In *Commercial Businesses*, the improvement in income can be attributed mainly to LPG -due to better margins achieved in the bottled business, as well as higher volumes sold as a result of lower temperatures- and *Marketing*, driven by the improvement in margins and volumes sold.

*Downstream* **EBITDA** totaled €733 million (compared to the €961 million in the first quarter of 2017).

**Capital expenditure** amounted to €138 million during the period compared to €114 million in the same period in 2017.

***Corporate and other***

Adjusted net income totaled -€129 million (compared to the -€154 million in the first quarter of 2017), due to the decrease in corporate costs and the improvement in financial income, favored by the strong results of dollar positions and lower debt interest.

The **Inventory effect** amounted to -€9 million. This change can be explained by the performance of product prices over the course of the quarter.

**Special items**, which hereinafter include the income recognized from the stake holding in Gas Natural Fenosa after being classified as a discontinued operation (see Note 1.3), came to €3 million; worth particular mention are the provisions to cover credit risk in Venezuela.

| | **TOTAL** | |
|---|---|---|
| *€ Million* | **Q1 2018** | **Q1 2017 [1]** |
| Divestments | 2 | 18 |
| Workforce restructuring charges | (2) | (4) |
| Impairment | (2) | (28) |
| Provisions and other | (63) | (11) |
| Discontinued operations (see Note 1.3) | 68 | 60 |
| **TOTAL** | **3** | **35** |

(1) Includes the amendments required in terms of the interim condensed consolidated financial statements for the first quarter of 2017 (see Note 2 "*Basis of presentation*") concerning the agreement to sell the stake in Gas Natural (see Note 1.3).

**Net income** in the first quarter, as a result of all the foregoing, amounted to €610 million, 11% down on the first quarter of 2017.

**Free cash flow** in the first quarter of 2018 came to €319 million, up from €120 million of the first quarter of 2017 thanks to the increase in operating cash flows. The maintenance of EBITDA, the effort in working capital management and investment efficiency has made it possible to cover higher tax payments, despite the absence of significant divestments in the period. As a result of the concentration in this period of dividend payments (*scrip dividend*), annual coupon payments of the hybrid bonds and, particularly, the acquisition of treasury shares, cash flow has dropped to €466 million.

| | Q1 2018 | Q1 2017 |
|---|---|---|
| **EBITDA** | **1,804** | **1.844** |
| Changes in working capital | (556) | (875) |
| Dividends received | - | 3 |
| Income tax receipts/(payments) | (202) | (129) |
| Other receipts/payments of operating activities | (127) | (126) |
| **I. CASH FLOWS FROM OPERATING ACTIVITIES** | **919** | **717** |
| Payments on investments | (608) | (610) |
| Proceeds from divestments | 8 | 13 |
| **II. CASH FLOWS FROM INVESTMENT ACTIVITIES** | **(600)** | **(597)** |
| **FREE CASH FLOW (I+II)** | **319** | **120** |
| Payments of dividends and remuneration of other equity instruments | (196) | (138) |
| Net interest | (185) | (233) |
| Treasury shares | (404) | (165) |
| **CASH FLOW GENERATED IN THE PERIOD** | **(466)** | **(416)** |

**Net Debt** at March 31, 2018 stood at €6,836 million, significantly lower than at March 31, 2017 (€8,345 million), due to the improvement in the cash flow generated by the businesses over the period and the lower costs of borrowing. Compared to the existing debt at December 31, 2017, €6,267 million, the increase can be explained by treasury share purchases during the period.

Group **liquidity**, including committed and undrawn credit facilities, stood at €6,518 million at March 31, 2018, which is enough to cover its short-term debt maturities by a factor of 1.33. Repsol had unused credit lines amounting to €2,241 million and €2,503 million at March 31, 2018 and December 31, 2017, respectively.

## 3.4 Information by geographic area

The geographic distribution of the main figures in each of the periods shown is as follows:

| | First quarter 2018 and 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Operating income | | Adjusted net income | | Operating investments | | Capital employed (2) | |
| *€ Million* | Q1 2018 | Q1 2017 (1) | Q1 2018 | Q1 2017 (1) | Q1 2018 | Q1 2017(1) | 3/31/2018 | 3/31/2017 |
| **Upstream** | **555** | **335** | **320** | **224** | **452** | **438** | **21,063** | **23,865** |
| Europe, Africa and Brazil | 372 | 170 | 176 | 82 | 153 | 91 | - | - |
| Latin America - Caribbean | 197 | 178 | 168 | 106 | 44 | 162 | - | - |
| North America | 77 | (11) | 60 | (10) | 141 | 115 | - | - |
| Asia and Russia | 94 | 86 | 57 | 53 | 66 | 29 | - | - |
| Exploration and other | (185) | (88) | (141) | (7) | 48 | 41 | - | - |
| **Downstream** | **558** | **663** | **425** | **500** | **138** | **114** | **9,960** | **9,822** |
| Europe | 475 | 578 | 361 | 446 | 101 | 100 | - | - |
| Rest of World | 83 | 85 | 64 | 54 | 37 | 14 | - | - |
| **Corporate and other** | **(56)** | **(56)** | **(129)** | **(154)** | **8** | **5** | **1,806** | **2,703** |
| **TOTAL** | **1,057** | **942** | **616** | **570** | **598** | **557** | **32,829** | **36,390** |

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

(1) Includes the amendments required in terms of the interim condensed consolidated financial statements for the first quarter of 2017 (see Note 2 “*Basis of presentation*”) concerning the agreement to sell the stake in Gas Natural.

(2) Includes capital employed in continuing operations

## (4) OTHER INFORMATION

Below are the most significant changes in the period to items on the consolidated balance sheet and consolidated income statement.

### 4.1 Equity

| | € Million | |
|---|---|---|
| | **3/31/2018** | **12/31/2017** |
| **Shareholders' equity:** | **29,913** | **30,197** |
| Share capital | 1,556 | 1,556 |
| Share premium and reserves: | 27,454 | 25,694 |
| Share premium [1] | 6,428 | 6,428 |
| Legal reserve [2] | 299 | 299 |
| Prior year income/(losses) and other reserves [3] | 20,727 | 18,967 |
| Treasury shares and own equity investments | (549) | (45) |
| Net income for the year attributable to the parent | 610 | (2,121 |
| Dividends and other remuneration | (153) | (153) |
| Other equity instruments | 995 | 1,024 |
| **Other accumulated comprehensive profit/(loss)** | **(902)** | **(404)** |
| **Minority interests** | **273** | **270** |
| **TOTAL EQUITY** | **29,284** | **30,063** |

(1) The Spanish Companies Act (LSC) expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use.
(2) Under the LSC, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital. The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital. Unless otherwise mentioned above, and provided that it does not exceed 20% of share capital, this reserve may only be used to offset losses and provided that there are no other reserves available that serve this purpose.
(3) "Other reserves" comprises the adjustments related to the differences between the previous accounting principles and the IFRS, from events and transactions before the transition date to IFRS (January 1, 2004). In 2018, this includes the impact of the standards applied for the first time (see Note 2.3).

#### *Capital*

At March 31, 2018, the share capital of Repsol, S.A. came to €1,556,464,965, fully subscribed and paid out, consisting of 1,556,464,965 shares with a face value of €1 each.

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

| Significant shareholders | % of share capital |
|---|---|
| CaixaBank, S.A. | 9.5 |
| Sacyr, S.A.[1] | 7.9 |
| Temasek Holdings (Private) Limited [2] | 3.8 |
| Blackrock, Inc. [3] | 4.5 |

(1) Sacyr, S.A. holds its investment through Sacyr Securities, S.A.U, Sacyr Investments S.A.U. and Sacyr Investments II, S.A.U.
(2) Temasek holds its investment through its subsidiary, Chembra Investment PTE, Ltd.
(3) Blackrock Inc. holds its stake through various entities under its control.

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

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

| | No. of shares | Amount (€M) | % capital |
|---|---|---|---|
| **Balance at 12/31/2017** | **3,028,924** | **45** | **0.19%** |
| Market purchases [1] | 35,490,526 | 526 | 2.28% |
| Market sales [1] | (1,462,888) | (22) | 0.09% |
| **Balance at 3/31/2018 [2]** | **37,056,562** | **549** | **2.38%** |

(1) Includes the shares acquired and delivered (as applicable) under the scope of the Share Acquisition Plan and the share purchase programs aimed at beneficiaries of the pluri-annual variable pay incentive plans. In 2018, 162,888 shares have been delivered as per the provisions of each of the plans (see Note 28.4 of the 2017 Consolidated Financial Statements).

(2) At March 31, 2018, the outstanding balance includes equity swaps arranged by Repsol Tesorería y Gestión Financiera, S.A. with financial institutions over a notional of 31 million of Repsol, S.A.'s shares under which there were transferred the voting rights and economic risk intrinsic to the underlying.

### *Shareholder remuneration*

Below, details of the remuneration of shareholders in Repsol, S.A. during the three months ending March 31, 2018 as part of the "*Repsol Flexible Dividend*" scheme can be consulted:

| | No. free allocation rights sold to Repsol | Price of purchase commitment (€/right) | Cash payout (millions of euros) | New shares issued | Remuneration in shares (millions of euros) |
|---|---|---|---|---|---|
| December 2017/January 2018 | 393,708,447 | 0.388 | 153 | 29,068,912 | 440 |

The Board of Directors, at its meeting held on 4 April 2018, agreed to submit a proposal to increase capital charged to voluntary reserves from retained earnings, equivalent to a payout of €0.50 per share to the Annual General Meeting to be held on 10 and 11 May 2018 at the first and second call, respectively, as part of the "*Repsol Flexible Dividend*" scheme.

Furthermore, the Board of Directors has agreed to submit a decrease in capital through the amortization of treasury shares to the Annual General Meeting, in order to mitigate the dilutive effect of the capital increases to be held throughout 2018 under the "*Repsol Flexible Dividend*" program (one of them already carried out in January, replacing the traditional payment of the interim dividend of the year 2017, and in which 29,068,912 shares were issued, and the other one scheduled for July 2018, replacing the traditional complementary dividend for the year 2017). This capital decrease would be carried out through the amortization of the treasury shares outstanding at the date of the Board´s resolution and through the shares to be acquired through a stock repurchase program and, if necessary, through the liquidation of derivatives contracted prior to April 4, 2018. The main effect of the said capital decrease will be an increase of the earnings per share, which will redound in favor of the shareholders.

## 4.2 Financial instruments

### *Financial assets*

| | € Million | |
|---|---|---|
| | **3/31/2018** | **12/31/2017** |
| Non-current financial liabilities | 1,752 | 2,038 |
| Non-current trade operation derivatives [1] | 2 | 2 |
| Other current financial assets | 286 | 257 |
| Current trade operation derivatives [2] | 50 | 60 |
| Cash and cash equivalents | 3,824 | 4,601 |
| **Total financial assets** | **5,914** | **6,958** |

(1) Recognized in "*Other non-current liabilities*" on the consolidated balance sheet.
(2) Recognized under "*Other receivables*" on the consolidated balance sheet.

### *Financial liabilities*

| | € Million | |
|---|---|---|
| | **3/31/2018** | **12/31/2017** |
| Non-current financial debt | 8,999 | 10,080 |
| Current financial liabilities | 5,046 | 4,206 |
| Current trade operation derivatives [1] | 90 | 215 |
| **Total financial liabilities** | **14,135** | **14,501** |

(1) Recognized under *"Other payables"* on the consolidated balance sheet.

For more detailed information on financial instruments on the balance sheet recognized by class of financial and asset liability, consult Appendix II.

During the first three months of 2018, the main issues, maturities, cancelations or repurchases of obligations and other marketable securities were as follows:

- In January 2018, ROGCI repurchased a fixed-annual 3.75% bond maturing in February 2021 for a total of US$251 million, with a loss of €10 million recognized in *"Impairment and gains (losses) on disposal of financial instruments."*

- In February 2018, €750 million of fixed-annual 4.375% bonds issued by RIF within the EMTN Program in September 2012 were repaid at maturity.

The outstanding balance of the obligations and marketable securities at March 31, 2018 is as follows:

| ISIN | Issuer | Issue date | Currency | Face value (million) | Average rate % | Maturity | Listed [5] |
|---|---|---|---|---|---|---|---|
| US87425EAE32 [3] | Repsol Oil & Gas Canada Inc. | Oct-97 | Dollar | 50 | 7.250% | Oct-27 | - |
| US87425EAH62 [3] | Repsol Oil & Gas Canada Inc. | May-05 | Dollar | 88 | 5.750% | May-35 | - |
| US87425EAJ29 [3] | Repsol Oil & Gas Canada Inc. | Jan-06 | Dollar | 102 | 5.850% | Feb-37 | - |
| US87425EAK91 [3] | Repsol Oil & Gas Canada Inc. | Nov-06 | Dollar | 115 | 6.250% | Feb-38 | - |
| XS0733696495 [1] | Repsol International Finance, B.V. | Jan-12 | Euros | 1,000 | 4.875% | Feb-19 | LuxSE |
| US87425EAN31 [3] | Repsol Oil & Gas Canada Inc. | May-12 | Dollar | 57 | 5.500% | May-42 | - |
| XS0933604943 [1] | Repsol International Finance, B.V. | May-13 | Euros | 1,200 | 2.625% | May-20 | LuxSE |
| XS0975256685 [1] | Repsol International Finance, B.V. | Oct-13 | Euros | 1,000 | 3.625% | Oct-21 | LuxSE |
| XS1148073205 [1] | Repsol International Finance, B.V. | Dec-14 | Euros | 500 | 2.250% | Dec-26 | LuxSE |
| XS1207058733 [2] | Repsol International Finance, B.V. | Mar-15 | Euros | 1,000 | 4,500% [4] | Mar-75 | LuxSE |
| XS1334225361 [1] | Repsol International Finance, B.V. | Dec-15 | Euros | 600 | 2.125% | Dec-20 | LuxSE |
| XS1352121724 [1] | Repsol International Finance, B.V. | Jan-16 | Euros | 100 | 5.375% | Jan-31 | LuxSE |
| XS1442286008 [1] | Repsol International Finance, B.V. | Jul-16 | Euros | 600 | Euro 3M + 70 b.p. | Jul-18 | LuxSE |
| XS1451452954 [1] | Repsol International Finance, B.V. | Jul-16 | Euros | 100 | 0.125% | Jul-19 | LuxSE |
| XS1613140489 [1] | Repsol International Finance, B.V. | May-17 | Euros | 500 | 0.500% | May-22 | LuxSE |

(1) Issues made under RIF's EMTN Program, which is guaranteed by Repsol, S.A., as renewed in May 2017.
(2) Subordinated bond issued by Repsol International Finance B.V. and guaranteed by Repsol, S.A. This issue does not correspond to any open-ended or shelf program.
(3) Issues undertaken by Repsol Oil&Gas Canada, Inc. guaranteed by Repsol, S.A., under the scope of its "Universal Shelf Prospectus" and "Medium-Term Note Shelf Prospectus" in the US and Canada, respectively.
(4) Coupon scheduled for reset on March 25, 2025 and March 25, 2045.
(5) LuxSE (Luxembourg Stock Exchange). Excludes unofficial trading platforms and OTC markets.

Furthermore, Repsol International Finance, B.V. (RIF) also runs a Euro Commercial Paper (ECP) Program, arranged on May 16, 2013 and guaranteed by Repsol, S.A., with a limit up to € 2,000 million. Under this program, a number of issues and liquidations were carried out over the course of the period, with an outstanding balance at March 31, 2018 standing at €1,982 million.

### 4.3 Property, plant and equipment

The breakdown by geographical area of the Group's most significant investments is detailed in Note 3.4 "*Information by geographical area*", which is presented using the Group's reporting model.

### 4.4 Investments accounted for using the equity method

Repsol accounts for investments and income from joint ventures and associated in which it holds a stake using the equity method. Investments in joint ventures correspond fundamentally to Repsol Sinopec Brasil S.A., YPFB Andina, S.A., BPRY Caribbean Ventures, Llc., Petroquiriquire, S.A., Cardón IV, S.A. and Equion Energía, Ltd. and in associates, mainly in Petrocarabobo, S.A., following the aforementioned agreement for the sale of the stake in Gas Natural (see Note 1.3).

These investments are reflected in the Group's financial statements as follows:

| | € Million | | | |
|---|---|---|---|---|
| | **Carrying value of investment** | | **Share of results** [(1)] | |
| | **3/31/2018** | **31/12/2017** | **3/31/2018** | **31/03/2017** [(2)] |
| Joint ventures | 5,858 | 5,969 | 132 | 79 |
| Associates | 81 | 3,299 | 6 | 1 |
| **TOTAL** | **5,939** | **9,268** | **138** | **80** |

(1) Corresponds to the net income for the period from continuing operations. Does not include Other comprehensive income of -€141 million in 2018 and (-€139 million corresponding to joint ventures and -€2 million corresponding to associates) and -€73 million in 2017 (-€70 million corresponding to joint ventures and -€3 million corresponding to associates).

(2) Includes the amendments required in terms of the condensed consolidated interim financial statements for the first quarter of 2017 (see Note 2 *"Basis of presentation"*) concerning the agreement to sell the stake in Gas Natural.

Changes in this heading during the period were as follows:

| | € Million | |
|---|---|---|
| | 2018 | 2017 |
| **Balance at January 1** | **9,268** | **10,176** |
| Net investments | 3 | 49 |
| Income from investments accounted for using the equity method | 138 | 80 |
| Income from discontinued operations [(1)] | 68 | 60 |
| Dividend paid out | (82) | (8) |
| Currency translation differences | (142) | (62) |
| Reclassifications and other movements [(2)] | (3,314) | (39) |
| **Balance at March 31** | **5,939** | **10,256** |

(1) Includes the amendments required in terms of the 2017 consolidated financial statements and condensed consolidated interim financial statements for the first quarter of 2017 (see Note 2"Basis of presentation") concerning the agreement to sell the stake in Gas Natural.

(2) Includes the reclassification of assets held for the sale of the stakeholding in Gas Natural (see Note 1.3 "*Main changes in the consolidation scope*").

## 4.5 Other operating income/(expenses)

### *Revenue from contracts with customers*

The distribution by geography of the "*Sales*" and "*Services rendered and other income*" items at March 31, 2018 is as follows:

| | € Million |
|---|---|
| Spain | 6,917 |
| Peru | 861 |
| Portugal | 623 |
| United States | 547 |
| Rest | 2,067 |
| **Total** [(1)] | 11,015 |

(1) The distribution by geography has been drawn up depending on the markets to which the sales or services rendered have been offered.

## 4.6 Tax situation

### *Income tax*

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

The effective tax rate applicable to adjusted net income for the first three months of the year has been estimated as 35%. This rate is higher than the same period last year (28%), mainly due to the increase in

Upstream income to which high rates of tax apply.

The effective tax rate applicable to income from continuing operations (before tax and before considering the profit/(loss) of entities accounted for using the equity method) was 43%. This rate is higher than the same period in 2017 (23%), for reasons similar to those set out above.

***Government and legal proceedings with tax implications***

The information contained in this section updates the Government and legal proceedings with tax implications reported in Note 23 "*Taxes*" of the 2017 consolidated financial statements in the following countries:

*Brasil*

In relation to the dispute which Petrobras, as operator of Block BM-S-9, in which Repsol has a 25% stake, holds against the State of Sao Paulo (Brazil) for the alleged violation of formal obligations in 2009 (issuance of fiscal notes related to the movement of materials and equipment to the Stena drilling platform), the courts have favorably resolved for the Company. The ruling is final and non-actionable, so the contingency on this matter disappears.

*Ecuador*

In relation to its ongoing disputes with the Government of Ecuador, Oleoducto de Crudos Pesados, S.A. (OCP), in which Repsol Ecuador, S.A. holds a 29.66% stake, concerning the tax treatment of subordinated debt issued to finance its operations, a request for international arbitration was submitted in March 2018.

### 4.7 Litigation risks

The information contained in this section updates the legal contingencies reported in Note 16 of the 2017 consolidated financial statements for the following lawsuits:

*"Galley" oil pipeline lawsuit*

In August 2012, a portion of the Galley pipeline, in which Repsol Sinopec Resources UK Limited ("RSRUK", formerly known as Talisman Sinopec Energy UK Limited, "TSEUK"), has a 67.41% interest, suffered an upheaval buckle.

In September 2012, RSRUK filed a claim seeking coverage of the damages and losses sustained as a result of the incident from the insurance company Oleum Insurance Company (''Oleum''), a wholly-owned subsidiary of ROGCI, which in turn owns 51% of RSRUK. In July 2014, RSRUK filed a claim against Oleum for US$351 million for material damages and business disruption.

On the date of these financial statements, the supporting documents submitted by RSRUK do not demonstrate the existence of coverage under the policy.

RSRUK filed a request for arbitration on August 8, 2016, which will take place in London and the law governing the merits of the case will be the law of the State of New York.

In June 2017, the Court, at the proposal of the parties, split the proceedings into two phases (liability and, as applicable, quantum); the hearing concerning issues that form part of the first phase took place between February 19 and March 2, 2018. The parties submitted their final conclusions on March 26, 2018.

### 4.8 Geopolitical risks

The information provided in this section updates the contents of Note 21.3 of the 2017 Consolidated Financial Statements.

***Venezuela***

Repsol´s equity exposure in Venezuela at March 31 amounts to approximately €1,100 million and mainly comprises financing extended to Venezuelan subsidiaries. The exposure has been decreased compared to December 31, 2017 as a result of the provisions for credit risk resulting from the application of IFRS 9 (see Note 2.3).

During the period there have been changes in the Venezuelan exchange regime[1] (Exchange Agreement No. 39) to establish the DICOM exchange rate as a reference for the settlement and conversion of foreign currency. The Venezuelan currency -according to the DICOM exchange rate- has suffered a sharp devaluation, going from an exchange rate of Bs 4,014 / € to January 1 to Bs 60,867 / € as of March 31, 2018. This devaluation has not negative impacts on the Group's financial statements.

***Vietnam***

Repsol holds in Vietnam mining rights on three blocks distributed in six production sharing contracts (PSCs): one in production with a net surface area 152 $km^2$, one under development of 1,117 $km^2$ and four under exploration, with a net surface area of 72,244 $km^2$. Average net production in 2017 was 5.2 thousand barrels of oil equivalent a day (7.1 thousand barrels of oil equivalent in the first quarter of 2018). Estimated net proven reserves at December 31, 2017 amounted to 27 million barrels of oil equivalent. The carrying amount of Vietnam´s assets at March 31, 2018 amounted to around €1,000 million, and there are existing commitments related with the investment in those areas.

During this period, Repsol has received a formal instruction from PetroVietnam in which indicated not to carry out, for the time being, the execution of scheduled activities for the *Ca Rong Do* (CRD) development project, located in the South China Sea[2]. The scope of the suspension of activities has yet to be determined and the company is working with PetroVietnam to find ways to satisfy the interests of both parties. In any case, Repsol considers that has solid legal basis to claim compensation for the damages that may be caused by this situation.

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[1] On January 26, 2018, Foreign Exchange Agreement No. 39 was published, revoking No. 35 and No 38 and establishing the rules that will regulate operations in the DICOM exchange rate system from that date onwards. The most relevant aspects to Repsol are: i) The DICOM exchange rate will apply to all foreign currency operations in the public and private sector, in addition to all foreign currency operations not expressly covered therein, ii) the conversion of foreign currency to establish the tax base of tax liabilities resulting from customs operations shall employ the DICOM exchange rate, iii) each month, legal persons may acquire the equivalent of 30% of their monthly average gross income, included in the Income Tax Return for the preceding year, up to a maximum amount equivalent to €340 thousand or its equivalent in another currency, and iv) legal persons acquiring foreign currency via DICOM shall apply the exchange rate obtained at auction as the basis for calculating their cost structure and for other purposes. The first auction took place on February 5, 2018, resulting in an exchange rate of 30,985 Bs/$. The most recent auction took place on April 20, 2018 and the resulting exchange rate was 82,159.09 Bs/€, which reflects the serious devaluation of the Venezuelan currency during the period (the price recorded on January 1, 2018 was 4,014 Bs/€).

On March 22, 2018, Presidential Decree No. 3332 was published, establishing the reconversion of the monetary system's unit in the Bolivarian Republic of Venezuela. To this end, from June 4, 2018 onwards, the date on which the reconversion comes into force, the Venezuelan monetary system's unit shall be restricted into what is equivalent to one thousand current Bolivars (Bs. 1,000). As a result, all amounts expressed in national currency prior to this date must be converted to the new unit, dividing them by one thousand (1,000). The new currency will be known as the "Sovereign Bolivar".

On February 20, 2018, the launch of the "Petro" cryptocurrency was announced, backed by reserves from field 1 of the Ayacucho Block in the Orinoco Oil Belt, in order to create an alternative currency to the dollar and a digital and transparent economy for the benefit of emerging countries. From March 23 onward, legal and natural persons can effectively start to buy "Petros". They can be bought using convertible currencies: yuan, Turkish lira, euros and rubles. On March 19, the President of the United States of America signed an executive order banning US citizens and residents in the country from undertaking any transactions with any digital currency issued by the Venezuelan government from January 9, 2018 onwards, stepping up the sanctions regime on natural and legal persons from Venezuela.

[2] In July 2017, the Government of Vietnam ordered Repsol to cease drilling activities in Block 135/136.

## 4.9 Earnings per share

The earnings per share at March 31, 2018 and 2017 are detailed below:

| EARNINGS PER SHARE (EPS) | Q1 2018 | Q1 2017 |
|---|---|---|
| Net income attributable to the parent (million euros) | 610 | 689 |
| Adjustment to interest expense corresponding to subordinated perpetual bonds (millions of euros) | (7) | (7) |
| Weighted average number of shares outstanding at March 31 (millions of shares) [1] | 1,536 | 1,550 |
| **Basic and diluted earnings per share (euros/share)** | **0.39** | **0.44** |

[1] The share capital at March 31, 2017 came to 1,556,464,965 shares, although the average weighted number of shares outstanding for the purposes of calculating earnings per share includes the effect of capital increases undertaken as part of the "*Repsol Flexible Dividend*" shareholder payment system, as per the applicable accounts regulations (see Note 2.2 "*Comparative information*").

## 4.10 Other information

The Board of Directors, at its meeting held on 4 April 2018, agreed to submit to the Shareholder Annual Meeting to be held on 10 and 11 May 2018 at the first and second call, respectively, the proposal to ratify the appointment made by cooption and re-elect, for a statutory mandate of 4 years, Mr. Jordi Gual Solé, in addition to appointing Ms. María del Carmen Ganyet i Cirera and Mr. Ignacio Martín San Vicente as independent external Directors for a statutory mandate of 4 years to fill the vacancies created by the departure of Mr. Artur Carulla Font and Mr. Mario Fernández Pelaz.

## APPENDIX I: COMPOSITION OF THE GROUP

The main companies that comprise the Repsol Group are set out in Appendix I of the 2017 consolidated financial statements. The main changes in the composition of the Group during the first three months of 2018 are as follows:

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

| | | | | | 03.31.2018 | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Country** | **Parent company** | **Item** | **Date** | **Method of consolidation** [(1)] | **% voting rights acquired** | **% total voting rights following acquisition** [(2)] |
| WIB Advance Mobility, S.L. | Spain | Repsol Comercial de Productos Petrolíferos, S.A. | Incorporation | Mar - 18 | EM | 50.00% | 50.00% |

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

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

| | | | | | 03.31.2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Country** | **Parent company** | **Item** | **Date** | **Method of consolidation** [(1)] | **% voting rights disposed or derecognized** | **% total voting rights following disposal** | **Earnings/(Loss) generated (€ Million)** [(2)] |
| Repsol Energy Resources Canada, Inc. [(3)] | Canada | Repsol Canada Inversiones, S.A. | Merger | Jan-18 | FC | 100.0% | 0.0% | - |
| Rocsole OY | Finland | Repsol Energy Ventures, S.A. | Part. Dism. | Jan-18 | EM | 1.15% | 12.50% | - |

(1) Method of consolidation:
FC: Full consolidation.
EM: Equity method. Joint ventures are identified as "JV".
(2) Corresponds to earnings before tax.
(3) Effective January 1, 2018, Repsol Oil&Gas Canada, Inc. (ROGCI) and Repsol Energy Resources Canada, Inc. have been the subject of a corporate reorganization operation called under Canadian legislation "*vertical amalgamation*" and, as a result, both companies have been merged into a single company that has adopted the company name of ROGCI.

## APPENDIX II: OTHER DETAILED INFORMATION

### Financial instruments

*Financial assets*

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

| | March 31, 2018 and December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial assets at FV with changes through P&L [2] | | Financial assets at FV with changes through other comprehensive income [2] | | Financial assets at amortized cost | | Total | |
| € Million | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Equity Instruments | 20 | - | 99 | 118 | - | - | 119 | 118 |
| Derivatives | 2 | 2 | - | - | - | - | 2 | 2 |
| Other financial assets | 52 | 52 | - | - | 1,581 | 1,868 | 1,633 | 1,920 |
| **Long term / Non-current** | **74** | **54** | **99** | **118** | **1,581** | **1,868** | **1,754** | **2,040** |
| Derivatives | 67 | 77 | - | - | - | - | 67 | 77 |
| Other financial assets | 12 | 10 | - | - | 4,081 | 4,831 | 4,093 | 4,841 |
| **Short term / Current** | **79** | **87** | **-** | **-** | **4,081** | **4,831** | **4,160** | **4,918** |
| **TOTAL** [1] | **153** | **141** | **99** | **118** | **5,662** | **6,699** | **5,914** | **6,958** |

[1] Does not include "*Other non-current assets*" and "*Trade and other receivables*" of the consolidated balance sheet, which, at March 31, 2018 and December 31, 2017 came to €420 million and €470 million under long-term and €4,687 million and €5,161 million under short-term, of which €499 million and €1,028 million relate to current receivables on commodity sale and purchase agreements, which are measured at fair value with changes through profit and loss, with the rest mainly relating to trade receivables valued at amortized cost.

[2] The classification of all financial instruments by hierarchical fair value levels can be consulted under "*Fair value of financial instruments*" of this appendix.

*Financial liabilities*

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

| | March 31, 2018 and December 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial liabilities held for trading [2] | | Loans and payables | | Hedging derivatives [2] | | Total | | Fair value | |
| € Million | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Bank borrowings | - | - | 1,055 | 1,064 | - | - | 1,055 | 1,064 | 1,027 | 1,043 |
| Bonds and other securities | - | - | 5,315 | 6,323 | - | - | 5,315 | 6,323 | 5,715 | 6,812 |
| Derivatives | - | - | - | - | 56 | 68 | 56 | 68 | 56 | 68 |
| Other financial liabilities [3] | - | - | 2,573 | 2,625 | - | - | 2,573 | 2,625 | 2,573 | 2,625 |
| **Long term / Non-current** | **-** | **-** | **8,943** | **10,012** | **56** | **68** | **8,999** | **10,080** | **9,371** | **10,548** |
| Bank borrowings | - | - | 1,092 | 539 | - | - | 1,092 | 539 | 1,092 | 539 |
| Bonds and other securities | - | - | 3,648 | 3,406 | - | - | 3,648 | 3,406 | 3,693 | 3,419 |
| Derivatives | 107 | 241 | - | - | 1 | 2 | 108 | 243 | 108 | 243 |
| Other financial liabilities | - | - | 288 | 233 | - | - | 288 | 233 | 288 | 233 |
| **Short term / Current** | **107** | **241** | **5,028** | **4,178** | **1** | **2** | **5,136** | **4,421** | **5,181** | **4,434** |
| **TOTAL** [1] | **107** | **241** | **13,971** | **14,190** | **57** | **70** | **14,135** | **14,501** | **14,552** | **14,982** |

[1] At March 31, 2018 and December 31, 2017, the balance sheet includes €1,306 million and €1,347 million corresponding to "*Other non-current liabilities*" and €190 million and €195 million corresponding to "*Other payables*" related to finance leases carried at amortized cost that are not included in the table above.

[2] The classification of all financial instruments by hierarchical fair value levels can be consulted under "*Fair value of financial instruments*" of this appendix.

[3] Corresponds mainly to the loan granted by Repsol Sinopec Brasil S.A., via its subsidiary Repsol Sinopec Brasil B.V.

*Fair value of financial instruments*

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

| € Million | March 31, 2018 and December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| **Financial assets** | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Financial assets at fair value with changes through profit or loss | 66 | 68 | 67 | 73 | 20 | - | 153 | 141 |
| Financial assets at fair value with changes through other comprehensive income | 1 | 1 | - | - | 98 | - | 99 | 1 |
| **Total** | **67** | **69** | **67** | **73** | **118** | **-** | **252** | **142** |

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Financial liabilities held for trading | 49 | 139 | 58 | 102 | - | - | 107 | 241 |
| Hedging derivatives | - | - | 57 | 70 | - | - | 57 | 70 |
| **Total** | **49** | **139** | **115** | **172** | **-** | **-** | **164** | **311** |

The financial instruments recognized at fair value are classified under the different fair value hierarchies, as described below:
Level 1: Valuations based on a price traded on an active market for the same instrument.
Level 2: Valuations based on a price traded on an active market for similar financial assets or based on other valuation techniques that consider observable market data.
Level 3: Valuations based on variables that are not directly observable on the market.

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

The valuation techniques used for level-2 instruments employ, pursuant to accounting regulations, an income approach, which consists of discounting future known flows or estimated flows using discount curves constructed using market reference interest rates (for derivatives, they are estimated using implicit market forward curves), including adjustments for credit risk based on the life span of the instruments. For options, price fixing models are used based on Black & Scholes formulas.

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

The fair value of instruments classified at Level 3, which relates to equity investments in unlisted companies, has been determined largely by discounting cash flows. Where such information was not available, it has been calculated on the basis of the carrying amount of equity. Cash flow projections, and the valuation of equity, cannot be considered observable valuation inputs in the market.

Nevertheless, none of the indicated inputs should cause a significant change in the fair value of financial instruments classified at this level.

**Information about turnover**

The net turnover volume by segment between customers and operations between segments is provided below:

| | € Million | | | | | |
|---|---|---|---|---|---|---|
| | **Customers** | | **Inter-segment** | | **Total** | |
| Segments | **3/31/2018** | **3/31/2017** | **3/31/2018** | **3/31/2017** | **3/31/2018** | **3/31/2017** |
| Upstream | 1,410 | 1,194 | 406 | 404 | 1,816 | 1,598 |
| Downstream | 10,287 | 9,451 | 4 | 6 | 10,291 | 9,457 |
| Corporate and other | - | - | | - | | - |
| (-) Adjustments and eliminations of operating income between segments | - | - | (410) | (410) | (410) | (410) |
| **TOTAL** | **11,697** | **10,645** | **-** | **-** | **11,697** | **10,645** |

[(1)] Includes the amendments required in terms of the 2017 consolidated financial statements and condensed consolidated interim financial statements for the first quarter of 2017 (see Note 2"*Basis of presentation*") concerning the agreement to sell the stake in Gas Natural (see Note 1.3).

The reconciliation of other figures shown in Note 3.4 with those in IFRS-EU during the first three months of 2018 and 2017 is as follows:

| | € Million | |
|---|---|---|
| | **Q1 2018** | **Q1 2017** |
| **Revenue** [(1)] | **11,697** | **10,645** |
| *Adjustments:* | | |
| Upstream | (677) | (519) |
| Downstream | (5) | (5) |
| **Revenue under IFRS-EU** [(2)] | **11,015** | **10,121** |
| | | |
| **Operating income** [(1)] | **1,057** | **942** |
| *Adjustments:* | | |
| Upstream | (244) | (231) |
| Downstream | (17) | 139 |
| Corporate | - | (6) |
| **Operating income IFRS-EU** | **796** | **844** |
| | | |
| **Capital employed in continuing operations** [(1)] | **32,829** | **36,390** |
| *Adjustments:* | | |
| Upstream | 1,390 | 973 |
| Downstream | 20 | 15 |
| Capital employed from discontinued operations | 3,291 | 3,380 |
| **Capital employed** | **37,530** | **40,758** |

[(1)] Figures drawn up according to the Group´s reporting model described in Note 2.6 "*Business segment reporting*".
[(2)] The revenue figure (IFRS-EU) corresponds to the sum of the "*Sales*" and "*Services rendered and other income*" in the income statement.

## APPENDIX III: ALTERNATIVE PERFORMANCE MEASURES

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

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

For further information, see https://www.repsol.es

### 1. Financial performance measures

#### *Adjusted net income*

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

Repsol presents its segment results including joint ventures[3] or other companies which are jointly managed in accordance with the Group's investment percentage, considering its operational and economic indicators within the same perspective and degree of detail as those for companies consolidated under the full consolidation method. Thus, the Group considers that the nature of its businesses and the way in which results are analyzed for decision-making purposes is adequately reflected.

***Adjusted net income*** is calculated as the **Result from continuing operations** at Current Cost of Supply[4] (CCS) net of taxes and the result from non-controlling interests. It does not include certain income and expense ***(Special Items)***, and the ***Inventory effect***. **Net finance cost** is allocated to Adjusted Net Income under *Corporate and other* segment.

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

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[1] See Note 2.6.
[2] The hydrocarbon Exploration and Production information, which is compiled and disclosed by the Group annually, is prepared in accordance with the principles generally accepted in the oil and gas industry and, specifically, is based on the disclosure criteria outlined in Topic 932 issued by the Financial Accounting Standards Board (FASB).
[3] See Note 4.4 "*Investments accounted for using the equity method*", where the Group's main joint ventures are identified.
[4] The Current Cost of Supply (CCS) is commonly used in this industry to present the results of *Downstream* businesses which must work with huge inventories subject to continual price fluctuations. It is not an accepted European accounting regulation, yet does enable the comparability with other sector companies as well as monitoring businesses independently of the impact of price variations on their inventories. As a result of the foregoing, Adjusted Net Income does not include the so-called *Inventory Effect*.

***Inventory effect***

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

The AWC is a generally-accepted inventory measurement European accounting method. It contemplates purchase prices and historic production costs, valuing inventory at the lower between said cost and its market value.

***Special items***

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

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

| | First quarter | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ADJUSTMENTS | | | | | | | | | | |
| | Adjusted income | | Joint venture reclassification | | Special items | | Inventory effect[2] | | Total adjustments | | EU-IFRS profit/loss | |
| *€ Million* | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Operating income | 1,057[1] | 942[1] | (180) | (125) | (69) | (86) | (12) | 113 | (261) | (98) | 796 | 844 |
| Financial result | (114) | (155) | 40 | 31 | (7) | 4 | - | - | 33 | 35 | (81) | (120) |
| Income from equity affiliates - net of tax | 11 | 13 | 127 | 67 | - | - | - | - | 127 | 67 | 138 | 80 |
| **Income before tax** | **954** | **800** | **(13)** | **(27)** | **(76)** | **(82)** | **(12)** | **113** | **(101)** | **4** | **853** | **804** |
| Income tax | (333) | (222) | 13 | 27 | 11 | 57 | 3 | (28) | 27 | 56 | (306) | (166) |
| **Net income for the year from continuing operations** | **621** | **578** | **-** | **-** | **(65)** | **(25)** | **(9)** | **85** | **(74)** | **60** | **547** | **638** |
| Income attributed to non-controlling interests from continuing operations | (5) | (8) | - | - | - | - | - | (1) | - | (1) | (5) | (9) |
| **Income attributable to parent company from continuing operations** | **616** | **570** | **-** | **-** | **(65)** | **(25)** | **(9)** | **84** | **(74)** | **59** | **542** | **629** |
| Income from discontinued operations | - | - | - | - | 68 | 60 | - | - | 68 | 60 | 68 | 60 |
| **TOTAL INCOME ATTRIBUTABLE TO PARENT COMPANY** | **616** | **570** | **-** | **-** | **3** | **35** | **(9)** | **84** | **(6)** | **119** | **610** | **689** |

[1] Result from continuing operations at current cost of supply (CCS).
[2] The inventory effect represents an adjustment to "*Cost of sales*" and "*Variation in the inventories of finished products and semi-finished products*" of the Income statement under IFRS-EU.

***EBITDA:***

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

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

| | **First quarter** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Group reporting model** | | **Joint venture reclassification** | | **Inventory effect** | | **IFRS-EU Statement of Cash Flows(1)** | |
| *€ Million* | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Upstream | 1,101 | 921 | (434) | (391) | - | - | 667 | 530 |
| Downstream | 733 | 961 | - | (2) | - | - | 732 | 959 |
| Corporate and other | (30) | (38) | 13 | 8 | - | - | (17) | (30) |
| **EBITDA** | **1,804** | **1,844** | **(421)** | **(385)** | **-** | **-** | **1,382** | **1,459** |
| **EBITDA CCS** | **1,816** | **1,731** | **(421)** | **(385)** | **(12)** | **113** | **1,382** | **1,459** |

(1) Corresponds to "*Net income before tax*" and "*Adjustments to profit/ (loss)*" on the consolidated Statement of Cash Flows prepared under IFRS-EU.

***ROACE:***

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

The **ROACE** ("*Return on average capital employed*") is calculated as: (operating results adjusted for joint ventures outcomes + Income taxes + Results from investees) [1] / (Capital employed during the continuing operations period)[1]. **Capital employed** measures own and external capital invested in the company, and corresponds to Total Equity + ***Net debt***. It includes that corresponding to joint ventures or other companies whose operations are managed as such.

[1] Repsol has modified the calculation of ROACE to include *"Special items"* and improve comparability with other sector companies. The information for the comparative period has been adapted.

| NUMERATOR (*€ Million*) | Q1 18 | | Q1 17 | |
|---|---|---|---|---|
| **Operating income (EU-IFRS)** | **796** | | **844** | |
| Reclassification of joint ventures | 178 | | 125 | |
| Income tax [1] | (344) | | (235) | |
| Net income from companies accounted for using the equity method - net of taxes | 11 | | 13 | |
| **I. ROACE income at average weighted cost** | **641** | **2,743** | **747** | **3,077**[2] |
| **DENOMINATOR** (*€ Million*) | | | | |
| Total equity | | 29,284 | | 31,425 |
| Net financial debt | | 6,836 | | 8,345 |
| **Total capital employed at the end of the period** | | **36,120** | | **39,770** |
| **II. Average capital employed** [3] | | **32,968** | | **36,134** |
| **ROACE (I/II)** | | **8.3%** | | **8.5%** |

[1] Does not include income tax corresponding to financial results.
[2] Figure annualized by mere extrapolation of the data for the period.
[3] Corresponds to the average balance of capital employed in continuing operations at the beginning and end of the period.

## 2. Cash flow measures

***Free cash flow, cash flow generated and liquidity:***

The two main measures used by the Group's Management to evaluate the generation of cash flow in the period are ***Free cash flow*** and ***Cash flow generated***.

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

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

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

| | First quarter | | | | | |
|---|---|---|---|---|---|---|
| | Adjusted cash flows | | Joint venture reclassification and other | | IFRS-EU Statement of Cash Flows | |
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| I. Cash flows from / (used in) operating activities | 919 | 717 | (140) | (38) | 779 | 679 |
| II. Cash flows from / (used in) investing activities | (600) | (597) | 42 | 57 | (558) | (540) |
| **Free cash flow (I+II)** | **319** | **120** | **(98)** | **19** | **221** | **139** |
| **Cash flow generated** | **(466)** | **(416)** | **(32)** | **193** | **(498)** | **(223)** |
| III. Cash flows from / (used in) financing activities and other [(1)] | (1,093) | (1,073) | 95 | (31) | (998) | (1,104) |
| **Net increase / (decrease) in cash and cash equivalents (I+II+III)** | **(774)** | **(953)** | **(3)** | **(12)** | **(777)** | **(965)** |
| Cash and cash equivalents at the beginning of the period | 4,820 | 4,918 | (219) | (231) | 4,601 | 4,687 |
| Cash and cash equivalents at the end of the period | 4,046 | 3,965 | (222) | (243) | 3,824 | 3,722 |

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

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

| | First quarter | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Group reporting model | | | Joint venture reclassification | | | IFRS-EU | | |
| | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** |
| Cash and cash equivalents | 4,046 | 4,820 | 3,965 | (222) | (219) | (243) | 3,824 | 4,601 | 3,722 |
| Committed undrawn credit lines | 2,241 | 2,503 | 4,368 | - | - | - | 2,241 | 2,503 | 4,368 |
| Cash deposits of immediate availability [1] | 231 | 231 | - | - | - | - | 231 | 231 | - |
| **Liquidity** | **6,518** | **7,554** | **8,333** | **(222)** | **(219)** | **(243)** | **6,296** | **7,335** | **8,090** |

[1] New component. In a market situation with high levels of liquidity and negative remuneration rates, Repsol has contracted time deposits but with immediate availability that have been recorded under the heading "*Other current financial assets*" (Loans and receivables) and that do not meet the criteria to be classified as cash and cash equivalents.

### *Operating investments[1]:*

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

[1] Repsol has modified its measure of investment effort, which was previously Net investments (operating investments net of divestments) in accordance with general industry practice, and to improve comparability with sector companies, The information of the comparative period has been adapted.

| | First quarter | | | | | |
|---|---|---|---|---|---|---|
| | **Operating investments** | | **Joint venture reclassification and other** | | **IFRS-EU Statement of Cash Flows[1]** | |
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Upstream | 452 | 438 | (63) | (102) | 389 | 336 |
| Downstream | 138 | 114 | 1 | - | 139 | 114 |
| Corporate and other | 8 | 5 | - | - | 8 | 5 |
| **TOTAL** | **598** | **557** | **(62)** | **(102)** | **536** | **455** |

(1) Corresponds to "*Payments on investments*" on the consolidated statement of cash flows prepared under IFRS-EU, and does not include items corresponding to "*Other financial assets*".

## 3. Financial position measures

### *Debt and financial position ratios*

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

| | **Net debt** | | | **Joint venture reclassification [1]** | | | **Figure according to IFRS-EU balance sheet** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** |
| **Non-current assets** | | | | | | | | | |
| Non-current financial instruments[2] | 128 | 360 | 439 | 1,505 | 1,560 | 719 | 1,633 | 1,920 | 1,158 |
| **Current assets** | | | | | | | | | |
| Other current financial assets | 275 | 254 | 68 | 11 | 3 | 1,241 | 286 | 257 | 1,309 |
| Cash and cash equivalents | 4,046 | 4,820 | 3,965 | (222) | (219) | (243) | 3,824 | 4,601 | 3,722 |
| **Non-current liabilities[3]** | | | | | | | | | |
| Non-current financial liabilities | (6,579) | (7,611) | (8,490) | (2,420) | (2,469) | 57 | (8,999) | (10,080) | (8,433) |
| **Current liabilities[3]** | | | | | | | | | |
| Current financial liabilities | (4,913) | (4,160) | (4,412) | (133) | (46) | (2,762) | (5,046) | (4,206) | (7,174) |
| **Items not included on the balance sheet** | | | | | | | | | |
| Net mark to market valuation of financial derivatives (ex: exchange rate)[4] | 207 | 70 | 85 | (151) | - | - | 56 | 70 | 85 |
| **NET DEBT** | **(6,836)** | **(6,267)** | **(8,345)** | | | | **(8,246)** | **(7,438)** | **(9,333)** |

(1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:
*March 2018*: (Cash and cash equivalents of €21 million and current financial liabilities as a result of an intra-group loan of €2,437 million, less a €105 million third-party loan).
*December 2017*: (Cash and cash equivalents of €28 million and current financial liabilities as a result of an intra-group loan of €2,624 million, less €275 million in third-party loans)
*March 2017*: (Cash and cash equivalents of €20 million and current financial liabilities as a result of an intra-group loan of €2,890 million, less €393 million in third-party loans)
(2) Corresponds to the consolidated balance sheet heading, "*Non-current financial assets*" (but does not include available-for-sale financial assets).
(3) Does not include finance lease obligations.
(4) The net mark to market value of financial derivatives different from exchange rate derivatives has been eliminated from this section.

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

| | Gross debt | | | Joint venture reclassification | | | Figure according to IFRS-EU balance sheet | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** | **Mar-18** | **Dec-17** | **Mar-17** |
| Current financial liabilities | (4,895) | (4,133) | (4,368) | (133) | (2,670) | (2,762) | (5,028) | (6,803) | (7,130) |
| Net market valuation of current financial exchange rate derivatives | (2) | (9) | (4) | - | - | - | (2) | (9) | (4) |
| **Current Gross debt** | **(4,897)** | **(4,142)** | **(4,372)** | **(133)** | **(2,670)** | **(2,762)** | **(5,030)** | **(6,811)** | **(7,134)** |
| Non-current financial liabilities | (6,523) | (7,542) | (8,408) | (2,421) | 155 | 57 | (8,944) | (7,388) | (8,351) |
| **Non-current Gross debt** | **(6,523)** | **(7,542)** | **(8,408)** | **(2,421)** | **155** | **57** | **(8,944)** | **(7,388)** | **(8,351)** |
| **GROSS DEBT** | **(11,420)** | **(11,684)** | **(12,780)** | **(2,554)** | **(2,515)** | **(2,705)** | **(13,974)** | **(14,199)** | **(15,485)** |

The following ratios are based on Debt and are used by Group Management to assess leverage ratios as well as Group solvency.

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

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

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

***Interest cover*** is calculated in the same way as ***debt interest*** (which comprises finance income and expense), divided by ***EBITDA***. This ratio is a measurement that can determine the company's ability to cover interest payments with its ***EBITDA***.

| | First quarter | | | | | |
|---|---|---|---|---|---|---|
| | Group reporting model | | Joint venture reclassification | | Figure according to IFRS - EU balance sheet | |
| *Million euros* | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Interest | 72 | 95 | (16) | (18) | 56 | 77 |
| EBITDA | 1,804 | 1,844 | (422) | (385) | 1,382 | 1,459 |
| **Interest cover** | **4.0%** | **5.1%** | | | **4.0%** | **5.2%** |