

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the third quarter and the nine-month period ended September  
30, 2017

REPSOL, S.A. and investees comprising the 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**  
**Consolidated balance sheet at September 30, 2017 and December 31, 2016**

<b>ASSETS</b>	<b>Note</b>	<b>Million euros</b>	
		<b>09/30/2017</b>	<b>12/31/2016</b>
Intangible assets:		4,638	5,109
a) Goodwill		2,810	3,115
b) Other intangible assets		1,828	1,994
Property, plant and equipment	4.1	24,741	27,297
Investment properties		65	66
Investments accounted for using the equity method	4.2	9,388	10,176
Non-current financial assets	4.3	1,191	1,204
Deferred tax assets		4,393	4,746
Other non-current assets		266	323
<b>NON-CURRENT ASSETS</b>		<b>44,682</b>	<b>48,921</b>
Non-current assets held for sale		21	144
Inventories		3,589	3,605
Trade and other receivables:		6,263	5,885
a) Trade receivables		3,605	3,111
b) Other receivables		1,517	1,785
c) Income tax assets		1,141	989
Other current assets		228	327
Other current financial assets	4.3	1,360	1,280
Cash and cash equivalents	4.3	4,588	4,687
<b>CURRENT ASSETS</b>		<b>16,049</b>	<b>15,928</b>
<b>TOTAL ASSETS</b>		<b>60,731</b>	<b>64,849</b>
<b>Million euros</b>			
<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>09/30/2017</b>	<b>12/31/2016</b>
<b>EQUITY</b>			
Capital		1,527	1,496
Share premium and reserves		25,730	24,232
Treasury shares and own equity investments		(1)	(1)
Net income for the period attributable to the parent		1,583	1,736
Other equity instruments		1,014	1,024
<b>EQUITY</b>	<b>4.4</b>	<b>29,853</b>	<b>28,487</b>
<b>Items that can be reclassified to profit/(loss) for the year</b>		<b>(63)</b>	<b>2,380</b>
Financial assets available for sale		7	6
Hedge transactions		(167)	(171)
Exchange differences		97	2,545
<b>OTHER ACCUMULATED COMPREHENSIVE INCOME</b>		<b>(63)</b>	<b>2,380</b>
<b>EQUITY ATTRIBUTABLE TO THE PARENT and other holders of equity instruments</b>		<b>29,790</b>	<b>30,867</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>266</b>	<b>244</b>
<b>TOTAL EQUITY</b>	<b>4.4</b>	<b>30,056</b>	<b>31,111</b>
Grants		3	4
Non-current provisions		5,424	6,127
Non-current financial debt	4.3	8,008	9,482
Deferred tax liabilities		1,064	1,379
Other non-current liabilities		1,813	2,009
<b>NON-CURRENT LIABILITIES</b>		<b>16,312</b>	<b>19,001</b>
Liabilities linked to non-current assets held for sale		3	146
Current provisions		707	872
Current financial liabilities	4.3	6,999	6,909
Trade payables and other payables:		6,654	6,810
a) Suppliers		2,636	2,128
b) Other receivables		3,689	4,365
c) Current income tax liabilities		329	317
<b>CURRENT LIABILITIES</b>		<b>14,363</b>	<b>14,737</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>60,731</b>	<b>64,849</b>

Notes 1 to 5 are an integral part of this consolidated balance sheet at September 30, 2017.

**Repsol, S.A. and investees comprising the Repsol Group  
Consolidated income statement corresponding to the third quarter of 2017 (Q3 2017) and 2016 (Q3 2016) and the interim periods  
ending September 30, 2017 and 2016**

	Note	Million euros			
		Q3 2017	Q3 2016	9/30/2017	9/30/2016
Sales		9,954	8,881	30,059	24,576
Services rendered and other income		91	40	289	104
Changes in inventories of finished goods and work in progress inventories		(39)	149	(8)	472
Reversal of provisions and gains on disposal of non-current assets	4.7	14	507	423	864
Other operating income		10	251	511	703
<b>OPERATING REVENUE</b>	<b>4.6</b>	<b>10,030</b>	<b>9,828</b>	<b>31,274</b>	<b>26,719</b>
Supplies		(7,085)	(6,454)	(21,879)	(17,220)
Personnel expenses		(448)	(519)	(1,410)	(1,987)
Other operating expenses		(1,254)	(1,431)	(3,831)	(4,199)
Depreciation and amortization of non-current assets		(576)	(598)	(1,965)	(1,756)
Impairment losses recognized and losses on disposal of non-current assets	4.7	(14)	(86)	(279)	(139)
<b>OPERATING EXPENSES</b>	<b>4.6</b>	<b>(9,377)</b>	<b>(9,088)</b>	<b>(29,364)</b>	<b>(25,301)</b>
<b>OPERATING INCOME</b>		<b>653</b>	<b>740</b>	<b>1,910</b>	<b>1,418</b>
Finance incomes		46	41	135	134
Finance expenses		(142)	(169)	(460)	(534)
Change in fair value of financial instruments		3	8	41	(27)
Exchange gains (losses)		12	28	17	90
Impairment and gains (losses) on disposal of financial instruments		(2)	-	(1)	49
<b>FINANCIAL RESULT</b>		<b>(83)</b>	<b>(92)</b>	<b>(268)</b>	<b>(288)</b>
<b>Share of results of companies accounted by using the equity method after taxes</b>	<b>4.2</b>	<b>178</b>	<b>40</b>	<b>401</b>	<b>252</b>
<b>INCOME BEFORE TAX</b>		<b>748</b>	<b>688</b>	<b>2,043</b>	<b>1,382</b>
Income tax	4.5	(203)	(198)	(429)	(232)
<b>NET INCOME FOR THE PERIOD</b>		<b>545</b>	<b>490</b>	<b>1,614</b>	<b>1,150</b>
Net income attributable to non-controlling interests		(18)	(9)	(31)	(30)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT</b>	<b>3.1</b>	<b>527</b>	<b>481</b>	<b>1,583</b>	<b>1,120</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT</b>	<b>4.8</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>
Base		0.34	0.32	1.03	0.73
Diluted		0.34	0.32	1.03	0.73

Notes 1 to 5 are an integral part of this consolidated income statement at September 30, 2017.

**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated statement of recognized income and expenses corresponding to the third quarter of 2017 (Q3 2017) and 2016 (Q3 2016)**  
**and the interim periods ending September 30, 2017 and 2016**

	<b>Million euros</b>			
	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>09/30/2017</b>	<b>09/30/2016</b>
<b>NET INCOME FOR THE PERIOD</b> <b>(from the consolidated income statement)</b>	<b>545</b>	<b>490</b>	<b>1,614</b>	<b>1,150</b>
<b>OTHER COMPREHENSIVE INCOME (Items that cannot be reclassified to profit/(loss) for the period)</b>				
From actuarial gains and losses	8	-	1	-
Investments accounted for using the equity method	(3)	2	1	(1)
Tax effect	-	-	-	(5)
<b>TOTAL</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>(6)</b>
<b>OTHER COMPREHENSIVE INCOME (Items that can be reclassified to profit/(loss) for the period)</b>				
<b>Financial assets available for sale</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>
Measurement gains/(losses)	1	2	1	2
Amounts transferred to the income statement	-	-	-	-
<b>Cash flow hedge</b>	<b>4</b>	<b>6</b>	<b>13</b>	<b>(9)</b>
Measurement gains/(losses)	(1)	-	(7)	(41)
Amounts transferred to the income statement	5	6	20	32
<b>Exchanges differences</b>	<b>(670)</b>	<b>(89)</b>	<b>(2,276)</b>	<b>(450)</b>
Measurement gains/(losses)	(670)	(88)	(2,240)	(434)
Amounts transferred to the income statement	-	(1)	(36)	(16)
<b>Investments accounted for using the equity method</b>	<b>(34)</b>	<b>17</b>	<b>(133)</b>	<b>74</b>
Measurement gains/(losses)	(34)	(26)	(133)	24
Amounts transferred to the income statement	-	43	-	50
<b>Tax effect</b>	<b>(15)</b>	<b>3</b>	<b>(56)</b>	<b>(25)</b>
<b>TOTAL</b>	<b>(714)</b>	<b>(61)</b>	<b>(2,451)</b>	<b>(408)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>(164)</b>	<b>431</b>	<b>(835)</b>	<b>736</b>
a) Attributable to the parent	(179)	423	(857)	708
b) Attributable to non-controlling interests	15	8	22	28

Notes 1 to 5 are an integral part of this consolidated statement of recognized income and expenses at September 30, 2017.

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

**Consolidated statement of changes in equity corresponding to the interim periods ending September 30, 2017 and 2016**

Million euros	Equity attributable to the parent								
	Equity								
	Capital	Share premium and reserves	Treasury shares	Net income attributable to the parent	Other equity instruments	Other accumulated comprehensive income	Total equity attributable to the parent	Non-controlling interests	Total equity
<b>Adjusted opening balance</b>	<b>1,442</b>	<b>26,030</b>	<b>(248)</b>	<b>(1,398)</b>	<b>1,017</b>	<b>1,691</b>	<b>28,534</b>	<b>228</b>	<b>28,762</b>
<b>Total recognized gains/(losses)</b>	-	(6)	-	1,120	-	(406)	708	28	736
<b>Transactions with partners or owners</b>									
Increase/(Decrease) of capital	24	(24)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	(4)	(4)
Treasury share transactions (net)	-	(33)	(86)	-	-	-	(119)	-	(119)
Increases/(Reductions) due to changes in the scope	-	-	-	-	-	-	-	(21)	(21)
Other transactions with partners or owners	-	(144)	-	-	-	-	(144)	-	(144)
<b>Other changes in equity</b>									
Transfers between equity accounts	-	(1,398)	-	1,398	-	-	-	-	-
Subordinated perpetual bond issues	-	(21)	-	-	(26)	-	(47)	-	(47)
Other changes	-	12	-	-	-	-	12	1	13
<b>Closing balance at 9/30/2016</b>	<b>1,466</b>	<b>24,416</b>	<b>(334)</b>	<b>1,120</b>	<b>991</b>	<b>1,285</b>	<b>28,944</b>	<b>232</b>	<b>29,176</b>
<b>Total recognized gains/(losses)</b>	-	(5)	-	616	-	1,094	1,705	18	1,723
<b>Transactions with partners or owners</b>									
Increase/(Decrease) of capital	30	(30)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	(5)	(5)
Treasury share transactions (net)	-	(28)	333	-	-	-	305	-	305
Increases/(Reductions) due to changes in the scope	-	-	-	-	-	-	-	-	-
Other transactions with partners or owners	-	(99)	-	-	-	-	(99)	-	(99)
<b>Other changes in equity</b>									
Transfers between equity items	-	-	-	-	-	-	-	-	-
Subordinated perpetual bond issues	-	(7)	-	-	33	-	26	-	26
Other changes	-	(15)	-	-	-	1	(14)	(1)	(15)
<b>Closing balance at 12/31/2016</b>	<b>1,496</b>	<b>24,232</b>	<b>(1)</b>	<b>1,736</b>	<b>1,024</b>	<b>2,380</b>	<b>30,867</b>	<b>244</b>	<b>31,111</b>
<b>Total recognized gains/(losses)</b>	-	2	-	1,583	-	(2,442)	(857)	22	(835)
<b>Transactions with partners or owners</b>									
Increase/(Decrease) of capital	31	(31)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	-	-
Treasury share transactions (net)	-	-	-	-	-	-	-	-	-
Increases/(Reductions) due to changes in the scope	-	-	-	-	-	-	-	-	-
Other transactions with partners or owners	-	(189)	-	-	-	-	(189)	-	(189)
<b>Other changes in equity</b>									
Transfers between equity accounts	-	1,736	-	(1,736)	-	-	-	-	-
Subordinated perpetual bond issues	-	(22)	-	-	(10)	-	(32)	-	(32)
Other changes	-	2	-	-	-	(1)	1	-	1
<b>Closing balance at 9/30/2017</b>	<b>1,527</b>	<b>25,730</b>	<b>(1)</b>	<b>1,583</b>	<b>1,014</b>	<b>(63)</b>	<b>29,790</b>	<b>266</b>	<b>30,056</b>

Notes 1 to 5 are an integral part of this consolidated statement of changes in equity at September 30, 2017.

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

**Consolidated cash flow statement corresponding to the third quarter of 2017 (Q3 2017) and 2016 (Q3 2016) and the interim periods ending September 30, 2017 and 2016**

	Million euros			
	Q3 2017	Q3 2016	09/30/2017	09/30/2016
<b>Net income before tax</b>	<b>748</b>	<b>688</b>	<b>2,043</b>	<b>1,382</b>
<b>Adjustments to net income:</b>	<b>533</b>	<b>319</b>	<b>1,699</b>	<b>1,621</b>
Depreciation and amortization of non-current assets	576	600	1,965	1,758
Other adjustments to income (net)	(43)	(281)	(266)	(137)
<b>Changes in working capital</b>	<b>(125)</b>	<b>(236)</b>	<b>(115)</b>	<b>(756)</b>
<b>Other cash flows from operating activities:</b>	<b>30</b>	<b>(130)</b>	<b>(359)</b>	<b>(5)</b>
Dividends received	119	79	334	385
Income tax received /(paid)	(129)	(67)	(470)	69
Other proceeds from/(payments for) operating activities	40	(142)	(223)	(459)
<b>Cash flows from operating activities</b>	<b>1,186</b>	<b>641</b>	<b>3,268</b>	<b>2,242</b>
<b>Payments on investments:</b>	<b>(782)</b>	<b>(568)</b>	<b>(1,918)</b>	<b>(2,150)</b>
Group companies and associates	(16)	(157)	(152)	(629)
Property, plant and equipment, intangible assets and investment property	(509)	(378)	(1,391)	(1,379)
Other financial assets	(257)	(33)	(375)	(142)
<b>Proceeds from divestments:</b>	<b>(1)</b>	<b>2,154</b>	<b>21</b>	<b>2,995</b>
Group companies and associates	6	1,959	(12)	2,624
Property, plant and equipment, intangible assets and investment property	(8)	137	29	304
Other financial assets	1	58	4	67
<b>Other cash flows</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>(1)</b>
<b>Cash flow from investing activities</b>	<b>(783)</b>	<b>1,586</b>	<b>(1,901)</b>	<b>844</b>
<b>Proceed from/(payments for) equity instruments:</b>	<b>(39)</b>	<b>(65)</b>	<b>(222)</b>	<b>(114)</b>
Acquisition	(41)	(44)	(231)	(97)
Disposal	2	(21)	9	(17)
<b>Proceed from/(payments for) financial liabilities:</b>	<b>(249)</b>	<b>(775)</b>	<b>(539)</b>	<b>(1,049)</b>
Issues	1,775	2,995	7,930	10,115
Return and redemption	(2,024)	(3,770)	(8,469)	(11,164)
<b>Payment for dividends and remuneration on other equity instruments</b>	<b>(189)</b>	<b>(144)</b>	<b>(332)</b>	<b>(415)</b>
<b>Other cash flows from financing activities:</b>	<b>(50)</b>	<b>(77)</b>	<b>(341)</b>	<b>(559)</b>
Interest payments	(71)	(67)	(412)	(463)
Other proceeds from/(payments for) financing activities	21	(10)	71	(96)
<b>Cash flows from financing activities</b>	<b>(527)</b>	<b>(1,061)</b>	<b>(1,434)</b>	<b>(2,137)</b>
<b>Effect of changes in exchange rates</b>	<b>(5)</b>	<b>(4)</b>	<b>(32)</b>	<b>(10)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(129)</b>	<b>1,162</b>	<b>(99)</b>	<b>939</b>
Cash and cash equivalents at the beginning of the period	4,717	2,225	4,687	2,448
Cash and cash equivalents at the end of the period	4,588	3,387	4,588	3,387
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>09/30/2017</b>	<b>09/30/2016</b>
Cash at banks and in hand	4,435	2,260	4,435	2,260
Other financial assets	153	1,127	153	1,127
<b>TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>4,588</b>	<b>3,387</b>	<b>4,588</b>	<b>3,387</b>

Notes 1 to 5 are an integral part of this consolidated cash flow statement at September 30, 2017.

## NOTES TO THE FINANCIAL STATEMENTS

### INDEX

Note nº	Issue	Page
(1)	<b>GENERAL INFORMATION</b> .....	<b>8</b>
	1.1 About the interim condensed consolidated financial statements .....	8
	1.2 About the Repsol Group .....	8
(2)	<b>BASIS OF PRESENTATION</b> .....	<b>8</b>
	2.1 General principles.....	8
	2.2 Comparative information.....	9
	2.3 Standards applicable to financial information .....	9
	2.4 Changes in estimates and accounting judgments .....	10
	2.5 Seasonality.....	10
	2.6 Information by business segment .....	10
(3)	<b>SEGMENT RESULTS</b> .....	<b>12</b>
	3.1 Main figures and indicators .....	12
	3.2 Macroeconomic environment .....	13
	3.3 Results .....	14
	3.4 Information by geographic area.....	18
(4)	<b>OTHER INFORMATION</b> .....	<b>19</b>
	4.1 Assets .....	19
	4.2 Investments accounted for using the equity method .....	20
	4.3 Financial instruments.....	20
	4.4 Equity .....	22
	4.5 Tax situation .....	24
	4.6 Operating revenues and expenses .....	26
	4.7 Asset impairment .....	26
	4.8 Earnings per share .....	26
	4.9 Geopolitical risks.....	26
	4.10 Legal contingencies .....	27
	4.11 Other information .....	28
(5)	<b>EXPLANATION ADDED FOR TRANSLATION TO ENGLISH</b> .....	<b>28</b>
<b>APPENDIX</b>		
	<b>APPENDIX I: SCOPE OF CONSOLIDATION</b> .....	<b>29</b>
	<b>APPENDIX II: REGULATORY FRAMEWORK</b> .....	<b>30</b>
	<b>APPENDIX III: OTHER DETAILED INFORMATION</b> .....	<b>32</b>
	<b>APPENDIX IV: ALTERNATIVE PERFORMANCE MEASURES</b> .....	<b>35</b>

## **(1) GENERAL INFORMATION**

### **1.1 About the interim condensed consolidated financial statements**

The accompanying interim condensed consolidated financial statements of Repsol, S.A. and its investees, comprising the Repsol Group entities, present fairly the Group's equity and financial position at September 30, 2017, as well as the Group's earnings performance, the changes in the consolidated equity and the consolidated cash flows for the nine-month interim period then ended.

These interim financial statements were approved by the Board of Directors of Repsol, S.A. at its meeting on November 2, 2017.

### **1.2 About the Repsol Group**

Repsol constitutes an integrated group of oil and gas companies (hereinafter "Repsol", "Repsol Group" or the "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 marketing of oil products, oil byproducts, petrochemicals products, LPG, natural gas and liquefied natural gas (LNG).

The Repsol Group prepares its consolidated financial statements including the investments in all of its subsidiaries, associates and joint arrangements. Appendix I of the consolidated financial statements for the financial year 2016 details the main companies comprising the Repsol Group, which were included in the consolidation scope at said date. Appendix I of these interim condensed consolidated financial statements details the main changes in the Group's composition that occurred during the nine months ended September 30, 2017.

The activities of Repsol, S.A. and subsidiaries are subject to extensive regulation, the key aspects of which are set out in Appendix IV of the consolidated financial statements at December 31, 2016. Appendix II of this document sets out the main changes during the nine months ended September 30, 2017.

## **(2) BASIS OF PRESENTATION**

### **2.1 General principles**

The accompanying interim financial statements are expressed in millions of euros (except where otherwise indicated) and have been prepared based on the accounting records of the Group entities in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) at September 30, 2017, specifically in accordance with the requirements established in International Accounting Standard (IAS) 34 "*Interim financial reporting*", in addition to other applicable regulatory provisions.

In accordance with IAS 34, this interim financial information is only intended to provide an update on the latest approved annual financial statements, focusing on new activities, events, and circumstances occurring during the first nine months of the year; they do not, accordingly, duplicate information already disclosed in the prior-year annual consolidated financial statements. For an appropriate understanding of the information provided in these interim financial statements and given that they do not include information required for the preparation of a complete set of financial statements in accordance with IFRS-EU, they should be read in conjunction with the Repsol Group's consolidated financial statements for the year ended December 31, 2016, which were ratified at Repsol, S.A.'s Annual General Meeting on May 19, 2017.



## 2.2 Comparative information

As required under prevailing accounting standards, the earnings per share figures for the third quarter and the nine months ended September 30, 2016 have been restated in order to factor into the calculation the average number of shares outstanding in the wake of the capital increases carried out as part of the shareholder remuneration scheme known as the “*Repsol Flexible Dividend*” Program. This scheme is detailed in Note 4.4 “*Equity*”.

## 2.3 Standards applicable to financial information

The regulations applicable to the preparation of these financial statements have not undergone any changes compared to those applied to the consolidated financial statements at December 31, 2016. The following accounting standards and amendments issued by the IASB shall apply on a mandatory basis in the future:

### Mandatory application from January 1, 2017 (pending adoption by the EU):

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*.
- Amendments to IAS 7 *Disclosure Initiative*.
- Annual Improvements to IFRSs, *2014-2016 Cycle*<sup>1</sup>.

The Group estimates that these new features of accounting standards will not have any material impact on the consolidated financial statements other than, as applicable, certain additional disclosure requirements.

### Mandatory application from January 1, 2018 (adopted by the EU):

- IFRS 9 *Financial Instruments*: the accounting effects identified in terms of the initial application will be recognized in reserves. They will mainly consist of the effects of application of the new impairment model of financial assets based on “expected loss”. This model, in contrast to that prescribed by the current IAS 39, would entail the early recognition of expected credit losses as soon as a financial instrument is recognized for the first time, even in the absence of any signs of impairment. As to subsequent application, depending on the transactions concluded in future, the main effects that might arise from application of IFRS 9 would be: (i) the recognition of a provision for credit risk based on the “expected loss” model upon recognition on the balance sheet of a financial asset or the granting of a financial guarantee; (ii) wider flexibility in the accounting treatment of accounting hedges; and (iii) the option to measure at fair value through profit or loss commodity purchase and sale commitments within the Group’s normal course of business which would otherwise create an accounting asymmetry with the related derivative financial instruments. In addition, the standard includes new criteria for classification and measurement of financial assets based on the contractual characteristics of the instruments and on the entity’s management model. The Group continues to evaluate the date and the impacts arising from their initial application.
- IFRS 15 *Revenue from Contracts with Customers*: as of the reporting date the Group has not identified any potential material impact on its financial statements regarding: (i) the identification of “performance obligations” (obligations to transfer goods or services in contracts with customers) other than those already identified that might lead to their separation for the purposes of income recognition and measurement; (ii) accrual for accounting purposes or temporary attribution of income, in addition to new disclosure requirements.

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<sup>1</sup> Includes Amendments to IFRS 12 *Disclosure of Interests on Other Entities*.

Application in future periods (pending adoption by the EU):

- Interpretation of IFRIC 23 *Uncertainty over Income Tax Treatments* (mandatory application in 2019).
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (mandatory application in 2019).
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures* (mandatory application in 2019).
- IFRS 17 *Insurance Contracts* (mandatory application in 2021).

The Group is assessing what impact these regulatory developments may have on the consolidated financial statements.

## 2.4 Changes in estimates and accounting judgments

The preparation of these interim financial statements requires the use of judgments and estimates that affect the measurement of recognized assets and liabilities, the presentation of contingent assets and liabilities and the income and expense recognized during the period. The results may be significantly affected depending on the estimates made.

These estimates are made on the basis of the best available information, as described in Note 3, “*Accounting estimates and judgments*” of the consolidated financial statements for 2016. In the nine months ended September 30, 2017, there were no significant changes in the methodology of the estimates made at year-end 2016.

## 2.5 Seasonality

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

## 2.6 Information by business segment

### *Definition of segments*

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

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

The operating segments of the Group are:

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

Lastly, *Corporate and other* includes activities not attributable to the aforementioned businesses, and specifically, corporate expenses, net finance costs, the earnings and other metrics related to the remaining interest in Gas Natural SDG,S.A.<sup>1</sup> and inter-segment consolidation adjustments.

The Group has not aggregated any operating segments for presentation purposes.

### ***Presentation of segment results***

In presenting the results of its operating segments Repsol includes the results of its joint ventures<sup>2</sup> and other managed companies operated as such<sup>3</sup>, 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 so-called Adjusted net income, which corresponds to Net income from continuing operations at “*current cost of supply*” or CCS after taxes and non-controlling interests and not including certain items of income and expense (“Special Items”). The Financial result 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 that have to work with huge inventories subject to continual price fluctuations. It is not a commonly-accepted European accounting regulation, yet it does enable comparability with other sector companies as well as monitoring of businesses independently of the impact of price variations on their inventories. Using the CCS method, the cost of volumes sold during the reporting period is calculated using the costs of procurement and production incurred during that same period. Due to the above, Adjusted net income does not include the Inventory Effect. This Inventory Effect is presented separately, net of tax and non-controlling interests, and corresponds to the difference between income at CCS and that arrived at using the weighted average cost approach, which is the method used by the 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 ordinary business performance. It includes gains/losses on disposals, personnel restructuring charges, asset impairment losses and provisions for contingencies and other significant charges. Special Items are presented separately, net of the tax effect and non-controlling interests.

For each of the metrics identified by segments in Appendix IV (Adjusted net income, Inventory Effect, Special Items...), the corresponding items and figures are indicated to facilitate reconciliation with the corresponding metrics prepared in accordance with IFRS-EU.

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<sup>1</sup> Includes net income of the company according to the equity method. The other measures (EBITDA, free cash flow, etc.) only reflect the cash flows affecting the Group in its capacity as shareholder in Gas Natural SDG, S.A. (dividends, etc.).

<sup>2</sup> In the segment reporting model, joint ventures are consolidated proportionally in accordance with the Group's percent holding. See Note 8 “*Investments accounted for using the equity method*” and Appendix I of the consolidated financial statements for 2016, where the Group's main joint ventures are identified.

<sup>3</sup> Relates to Petrocarabobo, S.A., (Venezuela), a Group associate.

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

#### 3.1 Main figures and indicators

Financial indicators <sup>(1)</sup>	Q3		M9		Macroeconomic environment	Q3		M9	
	2017	2016	2017	2016		2017	2016	2017	2016
<b>Results</b>									
EBITDA	1,607	1,141	4,715	3,558	Brent average (\$/bbl)	52.1	45.9	51.8	41.9
Adjusted net income	576	307	1,702	1,224	WTI average (\$/bbl)	48.2	44.9	49.4	41.5
Net income	527	481	1,583	1,120	Henry Hub average (\$/MBtu)	3.0	2.8	3.2	2.3
Earnings per share (€/share)	0.34	0.32	1.03	0.73	Algonquin average (\$/MBtu)	2.3	2.8	3.2	2.9
Capital employed	n.a.	n.a.	37,028	39,170	Exchange rate average (\$/€)	1.17	1.12	1.11	1.12
ROACE (%) <sup>(2)</sup>	n.a.	n.a.	6.7	5.0					
<b>Net investments</b>	645	(1,645)	1,819	(607)	<b>Our business performance <sup>(1)</sup></b>				
						<b>Q3</b>		<b>M9</b>	
						<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Financial overview</b>					<b>Upstream</b>				
Free cash flow	733	2,117	1,676	2,892	Net production of oil and gas (kboe/d)	693	671	688	694
Debt interest / EBITDA (%)	5.3	9.1	5.7	9.2	Net production of liquids (kbbbl/d)	252	239	254	247
Net debt (ND)	n.a.	n.a.	6,972	9,988	Net production of gas (kboe/d)	441	432	433	447
ND / EBITDA (x times) <sup>(3)</sup>	n.a.	n.a.	1.1	2.1	Average crude oil realization prices (\$/bbl)	47.7	41.5	47.1	37.2
ND / Capital employed (%)	n.a.	n.a.	18.8	25.5	Average gas realization price (\$/kscf)	2.7	2.2	2.9	2.3
					EBITDA	755	502	2,421	1,435
<b>Shareholder remuneration</b>					Adjusted net income	148	(28)	487	35
Shareholder remuneration (€/share) <sup>(4)</sup>	0.43	0.29	0.76	0.76	Net investments	474	444	1,395	1,725
					<b>Downstream</b>				
<b>Stock market indicators</b>					Distillation utilization Spanish Refining (%)	98.6	91.8	92.4	84.9
End-period share price (€/share)	15.6	12.1	15.6	12.1	Conversion utilization Spanish Refining (%)	104.3	106.9	101.4	100.8
Period average share price (€/share)	14.4	11.9	14.3	10.8	Refining margin indicator Spain (\$/bbl)	7.0	5.1	6.8	6.0
Market capitalisation at year-end (€ million)	23,812	17,698	23,812	17,698	Oil product sales (kt)	13,442	12,471	38,513	34,522
					Petrochemical product sales (kt)	740	702	2,148	2,178
					LPG sales (kt)	247	327	997	1,379
					Gas sales in North America (Tbtu)	110.1	89.9	375.7	310.7
<b>Other indicators</b>					EBITDA	904	688	2,422	2,273
					Adjusted net income	502	395	1,431	1,329
<b>People</b>					Net investments	163	(196)	408	(454)
Staff <sup>(5)</sup>	n.a.	n.a.	27,076	28,306					
New employees <sup>(6)</sup>	1,104	860	2,580	2,168					
<b>Safety and environment</b>									
Frequency Rate of accidents <sup>(7)</sup>	n.a.	n.a.	0.67	0.79					
Total Frequency Rate of accidents <sup>(8)</sup>	n.a.	n.a.	1.36	1.66					
CO emission reduction <sub>2</sub> (kt)	39.8	34.4	109.6	122.3					

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

<sup>(1)</sup> In millions of euros, where applicable.

<sup>(2)</sup> ROACE has been annualized by extrapolating data for the period.

<sup>(3)</sup> EBITDA has been annualized by extrapolating data for the period.

<sup>(4)</sup> Fixed price guaranteed by Repsol for the freely allocated rights awarded under the “Repsol Flexible Dividend” Program (see Note 4.4)

<sup>(5)</sup> Includes direct and indirect employees.

<sup>(6)</sup> Only fixed or temporary employees with no prior working relationship with the company are considered to be new hires. The % of new hires that are permanent in the third quarter of 2017 and 2016 amounts to 23% and 32%, respectively, and for the nine months ended September 30, 2017 and 2016 to 30% and 41%, respectively.

<sup>(7)</sup> 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 2016 figure is annual.

<sup>(8)</sup> 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 2016 figure is annual.

<sup>1</sup> All of the information presented throughout this Note has been prepared using the Group’s reporting model (see Note 2.6), unless expressly indicated otherwise. Some of these metrics are Alternative Performance Metrics (APMs) in accordance with ESMA guidelines (see Appendices III and IV).

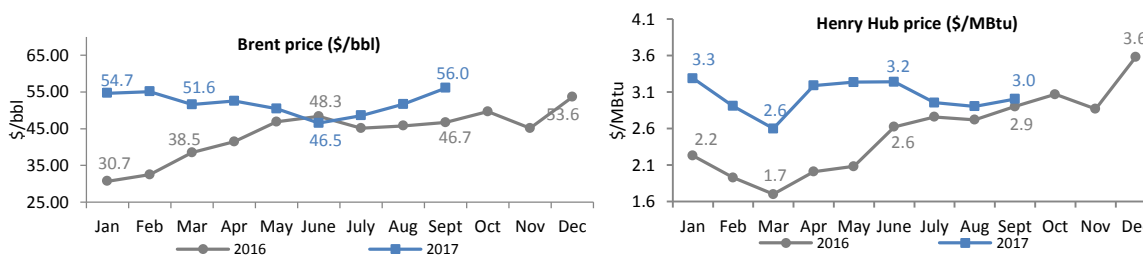
### 3.2 Macroeconomic environment

The **global economy** showed greater dynamism in 2017, which has helped improve perspectives and moderate economic risks. In the third quarter, the recovery is continuing, with quarterly growth stabilizing at about 1%. This recent improvement in activity is synchronized in different areas, making it more robust, also helping to improve trade and investment.

The Federal Reserve announced that it will begin to reduce its balance sheet in October, and the European Central Bank is expected to reduce its own purchasing program in 2018. With inflation at very low levels, normalization of monetary policy is expected to be quite gradual, with looser financial conditions supporting growth to be maintained. In addition, the lesser expected divergence between the activity and monetary policies of the US and the eurozone is leading to a weaker dollar, which is improving global financing conditions.

Although near-term economic risks have decreased, geopolitical uncertainty has increased, with tensions between North Korea and the US now combining with Brexit. Further, political tensions in Catalonia could affect investor confidence, which may result in higher financing costs and lower growth of Spain.

**Average monthly price of Brent and Henry Hub**



The **crude** market began the year 2017 with high expectations of a correction. Supply and demand was expected to balance out within a few months following the production cutbacks agreed in late 2016 by OPEC and a group of non-OPEC countries. However, the recovery of US output and doubts about compliance with the cutbacks led the price of Brent crude to fall by an average of five dollars in the second quarter, to \$49.8/bbl, hitting a low for the year of \$44.8/bbl on June 21. After that, evidence of an effective correction of the balance drove the price up to \$52/bbl at the end of August. This effect continued into September, when two events occurred that had an impact on the market: one of the most adverse hurricane seasons since 2005 in the Gulf of Mexico and the Caribbean, and geopolitical uncertainty generated by the independence referendum in Iraqi Kurdistan.

At the end of September, the price of Brent crude reached its highest level in more than two years, up to \$59.0/bbl, and closing the third quarter with an average of \$52.1/bbl. For its part, the price of WTI crude followed the price movements of Brent for the better part of the year, with a stable discount of about \$2-3/bbl up to August. From that time, the passage of Hurricane Harvey through the Gulf of Mexico, and hurricanes Irma and Maria through the Caribbean and the east coast of the US caused a closure of surface facilities, which resulted in a widening of the spread between Brent and WTI to levels near \$7/bbl. The average spread between Brent and WTI in the third quarter was \$3.9/bbl.

The price of Henry Hub US **natural gas** between January and September 2017 increased by nearly 40% compared to the same period of the previous year, up to about \$3.2/MBtu. This increase is related to an adjustment in the supply-demand balance in the U.S. market, driven by an increase in the demand for gas for export in a context of falling output of dry gas compared to last year. According to latest official figures published by the Energy Information Agency (EIA), demand for

gas for export increased by nearly 40% between January and September compared to the same period of the previous year. Meanwhile, the output of dry gas decreased slightly (-0.4%) compared to the same period of the previous year.

The balance adjustment eased in the third quarter owing to the following factors: the destruction of conventional demand due to an extremely active hurricane season this year, the most intense since 2005 and the increase in the production of dry gas as compared with the same quarter of the previous year following two consecutive quarters of annualized falls (according to official estimates available in September). Specifically, the price in the third quarter increased by 7% to \$3.0/MBtu, when it had increased by 60% and a 64% in the first and second quarters, respectively.

### 3.3 Results

	Million euros			
	Q3 2017	Q3 2016	9/30/2017	9/30/2016
Upstream	148	(28)	487	35
Downstream	502	395	1,431	1,329
Corporate and other	(74)	(60)	(216)	(140)
<b>ADJUSTED NET INCOME</b>	<b>576</b>	<b>307</b>	<b>1,702</b>	<b>1,224</b>
Inventory effect	10	(6)	(50)	(4)
Special items	(59)	180	(69)	(100)
<b>NET INCOME</b>	<b>527</b>	<b>481</b>	<b>1,583</b>	<b>1,120</b>

#### 3.3.1 Results of the third quarter

The results for the **third quarter of 2017**, compared to the same period in the previous year, occurred in a more favorable environment – in spite of the weakness of the dollar – marked by higher oil and gas prices (Brent +14% and Henry Hub +7%), better refining margins and an international environment that continues to be good for the petrochemicals business.

In the third quarter of 2017, Repsol earned net income of €527 million (+10% compared to the same period of the previous year) EBITDA of €1,607 million (+41% compared to the same period of the previous year) and free cash flow of €733 million, allowing it to reduce its net debt to €6,972 million (-30% compared to Q3 of 2016).

**Adjusted net income** amounted to €576 million, up 88% on the same period of the previous year, with a notable improvement in business segments: in *Upstream*, due to the increase in crude and gas realization prices, and the increase in sales and lower exploration costs, and in *Downstream* (+27%), due to the better results in all the business lines, with a highlight in Refining. These results were partially offset by the drop in income from *Corporate and other* (-23%) due to the lower contribution from Gas Natural Fenosa following the 10% reduction in the shareholding in 2016.

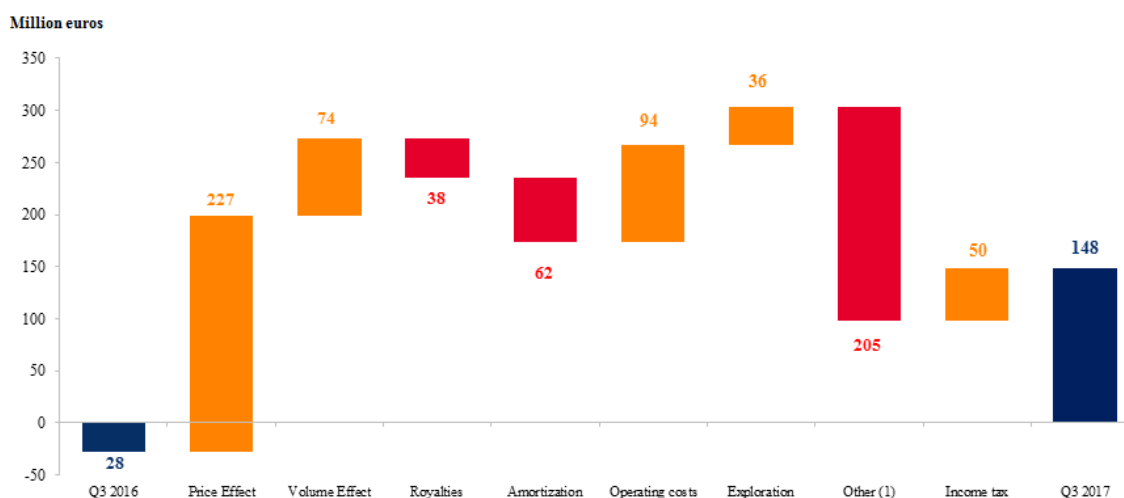
## Upstream

Average **production** in the second quarter was 693 Kboe/d, up 3% on the same period in 2016. The higher production was due to activity in Libya, the start-up of new wells and the better performance in Trinidad and Tobago (*Juniper*) and the start of production in *Lapa*, as well as the incorporation of new wells in *Sapinhoá* in Brazil and in the UK (*Flyndre* and *Cayley*). These positive effects were partially offset by the drop in demand for gas in Bolivia and Peru, the natural decline of fields and the effect of divestments performed in Trinidad and Tobago (TSP) and in Indonesia (*Tangguh* y *Ogan Komerang*).

Regarding **exploration activity**, drilling activity of three exploratory wells was completed in the third quarter, one with a positive result and two with a negative result. At the end of the period, there were eight exploratory wells and one appraisal well still ongoing, one of which was finished in October with a negative result.

**Upstream Adjusted net income** amounted to €148 million, well up on the same period in the previous year (-€28 million). This improvement can be attributed to the increase in crude oil and gas realization prices and the larger volumes sold – driven mainly by Libya –, lower operating costs, lower exploration costs and the decrease in taxes owing to the impact of local currencies. These positive effects were partially offset by higher amortization and depreciation charges resulting from increasing production, and the effect in 2016 of the reversal of decommissioning provisions.

**Upstream Adjusted net income variation Q3 2017 vs Q3 2016**



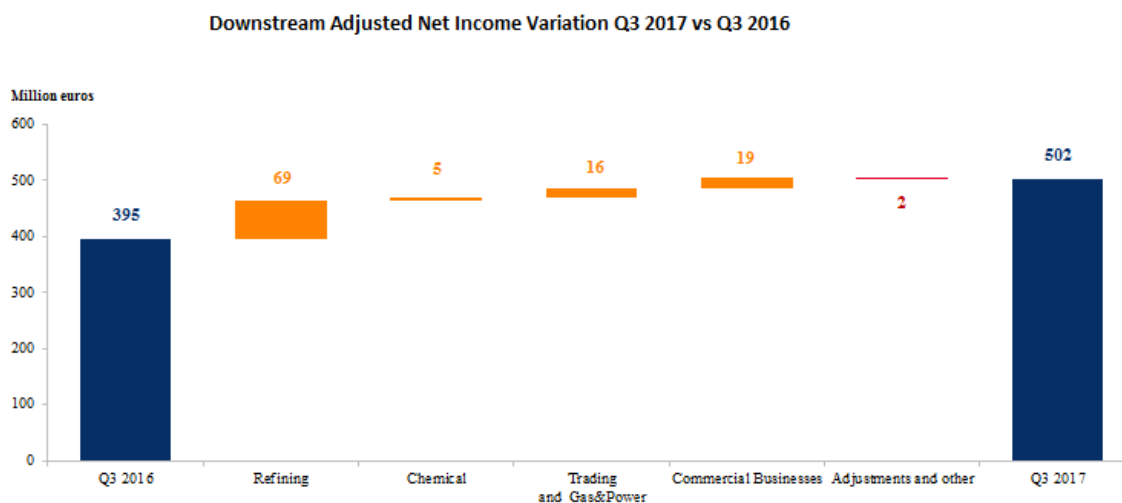
(1) Includes income from investees, the exchange rate effect and others.

**Upstream EBITDA** amounted to €755 million, up 50% on the same period the previous year, driven by the improvement in operating results.

Net investment of the period (€474 million) was up 7% year on year.

## Downstream

Adjusted net income in the third quarter of 2017 amounted to €502 million, up 27% year on year.



The positive change in result was due mainly to:

- Refining results improved as a result of the good international environment, which is sustaining elevated margins - due to the widening of the product price spread, which was partially offset by the narrowing of the price spread between heavy and light crudes-, and of the increase in sales driven by the high utilization levels of plants, which offset the negative exchange rate effect caused by the weakening of the dollar and the higher amortization and depreciation charges.
- The Chemicals business stayed on track for better results, on the back of higher sales to mitigate the impact on margins of the higher price of naphtha and of variable costs during the period.
- The better results in Trading were mainly due to transactions with crude oil.
- In Commercial Businesses, the improvement was mainly due to the strong results of Marketing, driven by larger margins and the reduction of fixed costs and the larger margins in regulated bottled LPG.

Downstream EBITDA totaled €904 million, (compared to the €688 million recorded in the third quarter of 2016).

Net operating investments in the period amounted to €163 million, compared to -€196 million in the same period of 2016, which included divestments of piped gas assets in Spain in the amount of €306 million.



### Corporate and other

Adjusted net income totaled -€74 million, (compared to the -€60 million recorded in the third quarter of 2016). The decrease in income contributed by Gas Natural Fenosa following the reduction of Repsol's shareholding in 2016 and the worse performance of marketing of gas and electricity, despite the better results in the gas distribution business in Latin America, were partially offset by the reduction in corporate costs and the better financial result due to the lower debt interest.

The **Inventory Effect** increased by €10 million. The change was due to the performance of product prices during the quarter.

In **Special Items**, which amounted to -€59 million, a highlight was the legal and tax provisions for workforce restructuring costs incurred in the downsizing of the management team and in voluntary redundancies.

Million euros	TOTAL	
	Q3 2017	Q3 2016
Divestments	(2)	383
Workforce restructuring charges	(13)	(25)
Impairment	1	(24)
Provisions and other	(45)	(154)
<b>TOTAL</b>	<b>(59)</b>	<b>180</b>

As a result of the foregoing, **Net income** for the third quarter amounted to €527 million, up 10% on the same period in 2016.

**EBITDA** for the period was €1,607 million, up 41% on the same period in 2016, driven by the noteworthy improvement in the performance of business segments.

**Free cash flow** in the third quarter of 2017 amounted to €733 million, lower than the €2,117 million of the third quarter of 2016, which included divestments in Gas Natural Fenosa and in the piped LPG business. EBITDA and the increase in working capital were more than sufficient to cover payment of taxes and investments, in spite of the absence of divestments in the period.

	Q3 2017	Q3 2016
<b>EBITDA</b>	<b>1,607</b>	<b>1,141</b>
Changes in working capital	(149)	(341)
Dividends received	63	80
Income tax receipts/(payments)	(127)	(65)
Other receipts/(payments) of operating activities	8	(157)
<b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1,402</b>	<b>658</b>
Payments on investments	(667)	(604)
Proceeds from divestments	(2)	2,063
<b>II. CASH FLOW FROM INVESTMENTS</b>	<b>(669)</b>	<b>1,459</b>
<b>FREE CASH FLOW (I+II)</b>	<b>733</b>	<b>2,117</b>
Dividend payments and remuneration from other equity instruments	(189)	(144)
Net interest	(69)	(68)
Treasury shares	(39)	(62)
<b>CASH GENERATED DURING THE PERIOD</b>	<b>436</b>	<b>1,843</b>

**Net debt** at September 30, 2017 amounted to €6,972 million, significantly inferior to the amount at the same date last year (€9,988 million), due to the improvement in the cash flow generated by the businesses over the period, discipline in investments and the lower costs of borrowing.

Group **Liquidity**, including committed and undrawn credit facilities, stood at €7,728 million at September 30, 2017, which is enough to cover its short-term debt maturities by a factor of 1.8. Repsol had undrawn credit facilities amounting to €2,698 million and €4,429 million at September 30, 2017 and December 31, 2016, respectively.

### **3.3.2 Accumulated results of the period (at September 30)**

In the **nine months ended September 30, 2017**, Repsol earned net income of €1,583 million (+41% compared to the same period of the previous year) and EBITDA of €4,715 million (+33% compared to the same period of the previous year), and reduced its net debt by 7% compared to June 30, 2017. Free cash flow in the period amounted to €1,676 million and cash flow generated amounted to €708 million.

**Adjusted net income** in the nine months ended September 30, 2017 amounted to €1,702 million, up 39% on the same period of the previous year. This performance was marked by a quite substantial improvement in *Upstream* (+1,291%) driven by higher crude and gas realization prices, increasing sales - mainly from Libya – and lower costs, which were partially offset by higher taxes and royalties. Performance also slightly improved in the *Downstream* segment (+8%), mainly given the better results in Refining (higher margins and sales) and in *Trading and Gas & Power*. These results offset the decrease in income in *Corporate and other* (-54%), which, in spite of lower corporate costs and debt interest, was affected by the lower contribution from Gas Natural Fenosa.

## **3.4 Information by geographic area**

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

<i>Million euros</i>	Third quarter of 2017 and 2016					
	Revenue <sup>(1)</sup>		Adjusted net income <sup>(1)</sup>		Net operating investments <sup>(1)</sup>	
	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016
<b>Upstream</b>	<b>1,438</b>	<b>1,210</b>	<b>148</b>	<b>(28)</b>	<b>474</b>	<b>444</b>
Europe, Africa and Brazil	482	346	79	51	87	149
Latin America - Caribbean	458	349	107	18	104	122
North America	272	276	(25)	(11)	145	61
Asia and Russia	226	239	38	13	57	23
Exploration and other	-	-	(51)	(99)	81	89
<b>Downstream</b>	<b>9,571</b>	<b>8,312</b>	<b>502</b>	<b>395</b>	<b>163</b>	<b>(196)</b>
Europe	7,052	7,634	498	405	119	(195)
Rest of World	3,365	1,239	4	(10)	44	(1)
Adjustments	(846)	(561)	-	-	-	-
<b>Corporate and other</b>	<b>(421)</b>	<b>(204)</b>	<b>(74)</b>	<b>(60)</b>	<b>8</b>	<b>(1,893)</b>
<b>TOTAL</b>	<b>10,588</b>	<b>9,318</b>	<b>576</b>	<b>307</b>	<b>645</b>	<b>(1,645)</b>

<sup>(1)</sup> For the reconciliation of these figures with the IFRS-EU disclosures, see Appendix III and IV.

<i>Million euros</i>	Nine months ended September 30, 2017 and 2016							
	Revenue <sup>(1)</sup>		Adjusted net income <sup>(1)</sup>		Net operating investments <sup>(1)</sup>		Capital employed <sup>(1)</sup>	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016
<b>Upstream</b>	<b>4,535</b>	<b>3,519</b>	<b>487</b>	<b>35</b>	<b>1,395</b>	<b>1,725</b>	<b>22,163</b>	<b>23,614</b>
Europe, Africa and Brazil	1,541	933	220	109	264	444	-	-
Latin America - Caribbean	1,340	1,152	266	190	394	526	-	-
North America	914	742	(50)	(125)	362	255	-	-
Asia and Russia	740	692	112	32	190	130	-	-
Exploration and other	-	-	(61)	(171)	185	370	-	-
<b>Downstream</b>	<b>28,665</b>	<b>22,950</b>	<b>1,431</b>	<b>1,329</b>	<b>408</b>	<b>(454)</b>	<b>9,477</b>	<b>9,801</b>
Europe	24,711	21,120	1,381	1,345	304	(332)	-	-
Rest of World	6,361	3,180	50	(16)	104	(122)	-	-
Adjustments	(2,407)	(1,350)	-	-	-	-	-	-
<b>Corporate and other</b>	<b>(1,221)</b>	<b>(606)</b>	<b>(216)</b>	<b>(140)</b>	<b>16</b>	<b>(1,878)</b>	<b>5,388</b>	<b>5,755</b>
<b>TOTAL</b>	<b>31,979</b>	<b>25,863</b>	<b>1,702</b>	<b>1,224</b>	<b>1,819</b>	<b>(607)</b>	<b>37,028</b>	<b>39,170</b>

<sup>(1)</sup> For the reconciliation of these figures with the IFRS-EU disclosures, see Appendix III and IV.

#### (4) OTHER INFORMATION

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

##### 4.1 Assets

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

##### *Investment commitments*

On April 17, the Field Development Plan (FDP) of the project for the development and start of production of the offshore Ca Rong Do (CRD) discovery in Vietnam block 07/03 was approved by the competent authorities. Subsequently, on April 26, Repsol and its partners in the project signed the Final Investment Decision (FID), launching the development phase of the project which is forecast to begin production in late 2019. Net investment required from Repsol has been estimated at \$627 million.

Repsol and its partner Pertamina have reached an agreement with Sonatrach, the Algerian national company, to commence Phase IV of the development project of block 405a in the MLN field of Algeria. The project will require an estimated net investment by Repsol of \$110 million.

## 4.2 Investments accounted for using the equity method

Repsol accounts using the equity method all investments and results in joint ventures and associates in which it participates. Its investments in joint ventures mainly correspond 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 to Gas Natural SDG, S.A.

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

	Million euros			
	Carrying value of investment		Share of results <sup>(1)</sup>	
	09/30/2017	12/31/2016	09/30/2017	09/30/2016
Joint ventures	6,107	6,713	230	242
Associates	3,281	3,463	171	10
<b>TOTAL</b>	<b>9,388</b>	<b>10,176</b>	<b>401</b>	<b>252</b>

<sup>(1)</sup> Corresponds to the net income for the period from continuing and discontinued operations. Does not include "Other comprehensive income" of €857 million (€703 million corresponding to joint ventures and €154 million to associates) and €114 million (€139 million corresponding to joint ventures and -€25 million corresponding to associates) in 2017 and 2016, respectively.

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

	Million euros	
	2017	2016
<b>Balance at January 1</b>	<b>10,176</b>	<b>11,797</b>
Net investments	140	(1,210)
Changes in scope of consolidation	72	1
Share of results of companies accounted for using the equity method net of taxes	401	252
Dividends paid out	(474)	(340)
Translation differences	(842)	(129)
Reclassifications and other movements	(85)	(164)
<b>Balance at September 30</b>	<b>9,388</b>	<b>10,207</b>

## 4.3 Financial instruments

### *Financial assets*

	Million euros	
	09/30/2017	12/31/2016
Non-current financial assets	1,191	1,204
Non-current trade operation derivatives <sup>(1)</sup>	2	-
Other current financial assets	1,360	1,280
Current trade operation derivatives <sup>(2)</sup>	70	64
Cash and cash equivalents	4,588	4,687
<b>Total financial assets</b>	<b>7,211</b>	<b>7,235</b>

<sup>(1)</sup> Recorded in "Other non-current assets" on the consolidated balance sheet.

<sup>(2)</sup> Recorded in "Other receivables" on the consolidated balance sheet.

## Financial liabilities

	Million euros	
	30/09/2017	31/12/2016
Non-current financial liabilities	8,008	9,482
Current financial liabilities	6,999	6,909
Current trade operation derivatives <sup>(1)</sup>	163	282
<b>Total financial liabilities</b>	<b>15,170</b>	<b>16,673</b>

<sup>(1)</sup> Recorded in "Other payables" on the consolidated balance sheet.

For further information about the financial instruments recognized on the Group's balance sheet, classified into the various categories of financial assets and liabilities, see Appendix III. Below are the main updates for the various financial liabilities:

### Bonds and other securities

The main issues, repayments or buybacks of bonds and other marketable securities carried out during the nine months ended September 30, 2017 are the following:

- In February 2017, €886 million of 4.75% fixed annual bonds issued by Repsol International Finance, B.V. as part of the EMTN Program were repaid at maturity.
- In May 2017, Repsol International Finance, B.V. issued €500 million of 0.50% fixed annual bonds<sup>1</sup> underwritten by Repsol, S.A. and maturing in 2022, as part of the EMTN Program.
- On June 9, ROGCI announced the launch of a Consent Solicitation addressed to holders of its outstanding US dollar bonds, with the aim of modifying certain terms and conditions of these issues, mainly in order to: (i) replace ROGCI's information duties with the periodic financial information that Repsol publishes in compliance with its transparency duties; and (ii) remove the merger covenant in order to optimize the Group's operating and financial flexibility.

ROGCI also offered investors the option of repurchasing their bonds.

Prior to the announcement of the transaction, Repsol, S.A. granted a guarantee of ROGCI's payment obligations as part of these issues; this guarantee shall remain in force until the maturity or cancellation of the bonds.

ROGCI has received the requisite number of consents from its bondholders to amend the terms and conditions of the issues in the proposed terms, and it repurchased bonds for a total of \$87 million.

- On September 14, 2017, ROGCI repurchased a 6.625% fixed annual bond maturing in December 2017 for a total of 266 million pounds sterling.

<sup>1</sup> This represents the first issue of a green bond by the Repsol Group, the funds of which are dedicated to refinancing and financing projects that seek to prevent the greenhouse gas emissions as part of refining and chemical activities in Spain and Portugal. For further information, consult the Green Bond Framework published at [www.repsol.energy/es/](http://www.repsol.energy/es/).

The outstanding balance of bonds and other marketable securities at September 30 is as follows:

ISIN	Issuer	Issue date	Currency	Face value (million)	Average rate %	Maturity	Listed <sup>(5)</sup>
US87425EAE32 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	oct-97	Dollar	50	7.250%	oct-27	-
US87425EAH62 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	may-05	Dollar	88	5.750%	may-35	-
US87425EAJ29 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	jan-06	Dollar	102	5.850%	feb-37	-
US87425EAK91 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	nov-06	Dollar	115	6.250%	feb-38	-
US87425EAL74 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	jun-09	Dollar	360	7.750%	jun-19	-
US87425EAM57 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	nov-10	Dollar	237	3.750%	feb-21	-
XS0733696495 <sup>(1)</sup>	Repsol International Finance, B.V.	jan-12	Euro	1,000	4.875%	feb-19	LuxSE
US87425EAN31 <sup>(3)</sup>	Repsol Oil & Gas Canada Inc.	may-12	Dollar	57	5.500%	may-42	-
XS0831370613 <sup>(1)</sup>	Repsol International Finance, B.V.	sep-12	Euro	750	4.375%	feb-18	LuxSE
XS0933604943 <sup>(1)</sup>	Repsol International Finance, B.V.	may-13	Euro	1,200	2.625%	may-20	LuxSE
XS0975256685 <sup>(1)</sup>	Repsol International Finance, B.V.	oct-13	Euro	1,000	3.625%	oct-21	LuxSE
XS1148073205 <sup>(1)</sup>	Repsol International Finance, B.V.	dec-14	Euro	500	2.250%	dec-26	LuxSE
XS1207058733 <sup>(2)</sup>	Repsol International Finance, B.V.	mar-15	Euro	1,000	4.500% <sup>(4)</sup>	mar-75	LuxSE
XS1334225361 <sup>(1)</sup>	Repsol International Finance, B.V.	dec-15	Euro	600	2.125%	dec-20	LuxSE
XS1352121724 <sup>(1)</sup>	Repsol International Finance, B.V.	jan-16	Euro	100	5.375%	jan-31	LuxSE
XS1442286008 <sup>(1)</sup>	Repsol International Finance, B.V.	jul-16	Euro	600	Eur. 3M + 70 b.p.	jul-18	LuxSE
XS1451452954 <sup>(1)</sup>	Repsol International Finance, B.V.	jul-16	Euro	100	0.125%	jul-19	LuxSE
XS1613140489 <sup>(1)</sup>	Repsol International Finance, B.V.	may-17	Euro	500	0.500%	may-22	LuxSE

<sup>(1)</sup> Issues made under RIF's EMTN Program, which is guaranteed by Repsol, S.A., as renewed in May 2017.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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. These issues are subject to the request for consent and repurchase option mentioned in this section.

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

<sup>(5)</sup> LuxSE (Luxembourg Stock Exchange). Multilateral trading systems or other trading centers or non-official over-the-counter markets are not considered.

Furthermore, Repsol International Finance B.V. (RIF) runs a Euro Commercial Paper (ECP) program, arranged on May 16, 2013 and guaranteed by Repsol, S.A., up to a limit of €2,000 million. Under this program, a number of issues and redemptions were carried out, with an outstanding balance at September 30, 2017 of €1,972 million.

#### 4.4 Equity

	Million euros	
	09/30/2017	12/31/2016
<b>Equity</b>	<b>29,853</b>	<b>28,487</b>
Capital	1,527	1,496
Share premium and reserves	25,730	24,232
Share premium	6,428	6,428
Legal Reserve	259	259
Prior year income/(losses) and other reserves	19,043	17,644
Dividends and compensation	-	(99)
Treasury shares and own equity investments	(1)	(1)
Net income for the period attributable to the parent	1,583	1,736
Other equity instruments	1,014	1,024
<b>Other accumulated comprehensive income</b>	<b>(63)</b>	<b>2,380</b>
<b>Non-controlling interests</b>	<b>266</b>	<b>244</b>
<b>TOTAL EQUITY</b>	<b>30,056</b>	<b>31,111</b>

## Share capital

At the Annual General Meeting of May 19, 2017, the Company's shareholders approved two bonus share issues to execute the shareholder remuneration scheme named “*Repsol Flexible Dividend*”, instead of a traditional final dividend from 2016 profits and an interim dividend from 2017 earnings. Under the scheme, shareholders can choose to receive remuneration either in cash (by selling their bonus share rights on the market or selling them back to the Company) or in Company shares. The first of these bonus share issues was executed in June and July. The main characteristics of this issue are detailed below:

		June/July 2017
<b>REMUNERATION IN CASH</b>	Shareholders that accepted the irrevocable purchase commitment <sup>(1)</sup>	29.58%
	Deadline for requesting sale of rights to Repsol at guaranteed price	June 23
	Fixed price guaranteed by right	€0.426 gross/right
	Gross value of rights acquired by Repsol	€189 million
<b>REMUNERATION IN SHARES</b>	Shareholders that chose to receive new Repsol shares	70.42%
	Number of rights required to allocate new share	34
	New shares issued.	30,991,202
	Approximate increase in share capital	2.07%
	End of capital increase	July 4

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

Following the capital increase, the registered share capital of Repsol, S.A. amounted to €1,527,396,053 at September 30, represented by 1,527,396,053 shares with a nominal value of 1 euro each.

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

Significant shareholders	% of share capital
CaixaBank, S.A.	9.6
Sacyr, S.A. <sup>(1)</sup>	8.0
Temasek Holdings (Private) Limited <sup>(2)</sup>	4.3
Blackrock, Inc. <sup>(3)</sup>	3.0

<sup>(1)</sup> Sacyr, S.A. retains its shareholding via Sacyr Securities, S.A.U, Sacyr Investments S.A.U. and Sacyr Investments II, S.A.U.

<sup>(2)</sup> Temasek holds its investment through its subsidiary, Chembra Investment PTE, Ltd.

<sup>(3)</sup> Blackrock, Inc. holds its shareholding through several funds and accounts managed by fund managers under its control. The information pertaining to Blackrock, Inc. is based on the declaration presented by the latter to the CNMV on January 15, 2016 regarding its shareholding as of that date.

### 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
<b>Balance at 12/31/2016</b>	<b>94,185</b>	<b>1</b>	<b>0.01%</b>
Market purchases	16,196,637	226	1.06%
Market sales	(16,203,876)	(226)	1.06%
Employee Share Acquisition Plan <sup>(1)</sup>	414,300	6	0.03%
Loyalty Program	21,576	-	0.00%
Repsol Flexible Dividend	2,395		0.00%
<b>Balance at 09/30/2017 <sup>(2)</sup></b>	<b>89,341</b>	<b>1</b>	<b>0.01%</b>

<sup>(1)</sup> All of the shares acquired under the scope of the Share Acquisition Plan have been delivered to employees.

<sup>(2)</sup> Between January and September, Repsol Tesorería y Gestión Financiera, S.A. arranged equity swaps with financial entities for a notional total of 16 million shares in Repsol, S.A., under which the economic risks and rewards of the underlying are transferred to the Group. The swaps were settled at September 30.

### Shareholder remuneration

The following table breaks down the dividend payments received by Repsol's shareholders during the nine-month period ended September 30, 2017, carried out under the "Repsol Flexible Dividend" program:

	No. free allocation rights sold to Repsol	Price of purchase commitment (€/right)	Amount paid out in cash (million euros)	New shares issued	Remuneration in shares (million euros)
December 2016/January 2017	296,735,539	0.335	99	30,760,751	392
June/July 2017	442,703,938	0.426	189	30,991,202	449

## 4.5 Tax situation

### Income tax

For the calculation of corporate income tax in interim periods, the estimated effective annual tax rate is used. However, tax effects derived from occasional events or unique transactions undertaken during the period are fully taken into account.

The effective tax rate applicable to adjusted net income for the first nine months of the year has been estimated at 26%. This rate is higher compared to the same period of the previous year (14%) due mainly to the increased income in *Upstream* businesses with high tax rates.

The effective tax rate applicable to income from continuing operations (before tax and before the share of results of companies accounted for using the equity method) has been 26%. This rate is higher than in the same period of 2016 (21%) for similar reasons set forth above.



### ***Administrative and legal proceedings with tax implications***

The information herein consists of an update of administrative and legal proceedings with tax implications reported in Note 20 - "Tax situation" - of the 2016 consolidated financial statements in respect of the following countries:

#### *Canada*

In connection with the proceedings undertaken by Canada's Revenue Agency (CRA) to verify the tax situation of the former Talisman Group companies (acquired by Repsol in 2015) resident in Canada for the years 2006 to 2010, a notice of reassessment has been received resulting in adjustments to the 2006 return under several items. The Company does not expect this claim to have a significant impact on the Group and has submitted the corresponding appeal, as it believes that some items have been adjusted incorrectly.

In addition, in September 2017, the Federal Court of Appeal handed down a ruling favorable to Repsol in the litigation it had with CRA in relation to the application of tax incentives for Canaport assets.

#### *Spain*

In August 2017, the State Agency for Tax Administration (AEAT for its initials in Spanish) has finished the tax inspection of the Tax Group 6/80, of which Repsol, S.A. is the head, for the years 2010-2013. The procedures concluded without the imposition of any sanctions, and for the most part with the signing of acceptance certificates or agreements on income tax, VAT, income tax withholdings and non-resident income tax, resulting in no significant liabilities for the Group. However, an appeal will be filed against administrative decisions on two income tax items (the deductibility of tax agency late payment interest and calculation of business losses occurring abroad), as the Company believes that its conduct has been lawful.

In August, the AEAT has initiated the actions of verification of the Tax Group 6/80 for the years 2014 and 2015.

Also, the Company received a decision of the Central Economic-Administrative Court that partially upholds the Company's appeal on certain tax matters related to the inspection of the years 2006-2009 and cancels the corresponding settlements. The Company will file an appeal with respect to items that were not upheld, as the Company believes that its conduct has been lawful.

It is difficult to predict a time frame for resolution of these procedures and litigation. The Group does not expect any significant financial impact to arise from the definitive resolution of these controversies.

#### *East Timor*

With respect to administrative proceedings by the authorities of East Timor on the deductibility of certain expenses in income tax by Repsol Oil & Gas Australia (JPDA 06-105) Pty Limited, the authorities have recently withdrawn their claims in this connection.

#### *Brazil*

With respect to the litigation of Repsol Sinopec Brasil with respect to withholdings (in 2009 and 2011) in relation to payments to foreign companies for the chartering of exploration vessels and related services used at blocks BM S-48 and BMC33 in which Repsol Sinopec Brasil is the operator, the company received an adverse tax assessment in the second federal administrative

instance. The Company continues to believe that its actions are compliant with the law and in line with widespread sector practice; accordingly, it has filed a new appeal in administrative proceedings.

#### 4.6 Operating revenues and expenses

There was a significant increase in revenue in the nine months ended September 30, 2017, largely attributable to the increase in “Sales” in both the *Downstream* segment, due to larger volumes sold compared to the same period of the previous year, and in the *Upstream* segment, due to higher crude oil prices (Brent: +24%) and gas (Henry Hub: +30%). For further information, see Note 3.4 “Information by geographic area”.

“Personnel expenses” in the nine months ended September 30, 2017 includes the impact of the downsizing of the management team (see Note 3) and, in 2016, includes workforce restructuring charges deriving from the collective redundancy program in Spain and in local units, and changes made to the management team.

#### 4.7 Asset impairment

In the *Upstream* segment, net impairment losses of -€31 million were recognized for exploratory assets in the Gulf of Mexico, in accordance with the expected course of development plans in the area.

#### 4.8 Earnings per share

Earnings per share at September 30, 2017 and 2016 are detailed below:

EARNINGS PER SHARE	Q3 2017	Q3 2016	9/30/2017	9/30/2016
Net income attributable to the parent (million euros)	527	481	1,583	1,120
Adjustment to interest expense corresponding to subordinated perpetual bonds (million euros)	(7)	(7)	(22)	(21)
Weighted average number of shares outstanding at September 30 (millions of shares) <sup>(1)</sup>	1,523	1,504	1,521	1,506
<b>Basic and diluted earnings per share (euros/share)</b>	<b>0.34</b>	<b>0.32</b>	<b>1.03</b>	<b>0.73</b>

<sup>(1)</sup> Share capital registered at September 30, 2016, amounted to 1,465,644,100 shares, though the weighted average number of shares in circulation for purposes of calculating EPS includes the effect of share capital increases carried out as part of the remuneration scheme for shareholders “Repsol Flexible Dividend”, in accordance with the applicable accounting standard (see Note 2.2 “Comparison of information”).

#### 4.9 Geopolitical risks

The information in this section updates the contents of Note 22.3 of the 2016 consolidated financial statements.

##### *Venezuela*

Repsol’s exposure to Venezuela at September 30 amounts to approximately €2,131 million and mainly comprises dollar-denominated financing granted to Venezuelan subsidiaries.

##### *Exchange system*

The operating mechanism of the DICOM system was established on May 19, 2017 by Foreign Exchange Agreement 38, which provides as follows: (i) mixed enterprises may sell dollars via the DICOM exchange market having obtained authorization from the executive branch; (ii) the DICOM exchange rate will be set by means of currency auctions within the system of fluctuation

bands to be announced by the Central Bank of Venezuela. At September 30, 2017, DICOM auctions are under suspension and the Government has announced its intention to adapt it to currencies other than the dollar.

In this new floating rate mechanism, the Venezuelan bolivar suffered a sharp devaluation in the period. The rate at December 31, 2016 was 674 Bs/\$, and at September 1, 2017, the DICOM rate was 3,345 Bs/\$.

Inflation (the IMF<sup>1</sup> forecasts 1,438% in 2017 and 3,575% for 2018) and shortages of some basic products have caused difficulties in the country.

During the period, the State of Economic Emergency was extended in Venezuela. The situation of political instability continues, and the National Constituent Assembly has been formally convened to draft a new constitution for the country (see Appendix II).

Repsol uses the US dollar as the functional currency of most of its oil and gas exploration and production businesses in Venezuela (most notably, through its equity-accounted interests in Cardón IV, S.A., Empresa Mixta Petroquiriquire, S.A. and Empresa Mixta Petrocarabobo, S.A.). At companies whose functional currency is the bolivar (mainly Quiriquire Gas, S.A), Repsol uses the DICOM exchange rate for bolivar/euro exchange for the preparation of its financial statements.

The devaluation of the bolivar did not have a material impact on Repsol's financial statements.

### ***Libya***

Political instability continues in the country without the formation of a new government recognized by all parties.

On December 20, 2016, production in El Sharara (fields A, M and H) was reestablished. On January 4, 2017, production resumed in the I/R field in Libya (field shared between blocks NC-186 and NC-115) and, on May 9, in NC-186.

However, due to external factors, there has been intermittent downtime since the end of March. Average production in the nine months ended September 30, 2017 was 22.8 thousand barrels of oil equivalent/day (20.6 thousand barrels of oil equivalent in September).

### **4.10 Legal contingencies**

The information contained in this section updates the legal contingencies reported under Note 29 of the 2016 consolidated financial statements in the following countries.

#### ***United Kingdom***

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

On June 2017, the Court, at the parties' proposal, the division of the procedure into two phases (liability and quantum, as applicable) was approved, as was the preliminary hearing for matters to be addressed in the first phase in February 2018. With the allegations phase having concluded, the proceeding is currently in the preparatory phase of the oral hearing, including discovery and the evidence phase.

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<sup>1</sup> Source: IMF World Economic Outlook, April 2017.

## ***United States of America***

### ***The Passaic River / Newark Bay lawsuit***

The presiding judge decided on April 5, 2016 to fully uphold the recommendations issued by the special master, thereby dismissing entirely Occidental Chemical Corporation's (OCC) suit against Repsol. The decision can be appealed. On June 16, 2016, the special master agreed to hear the motion for summary judgment presented by Repsol with regard to its claim against OCC for the \$65 million paid as part of the settlement reached with the State of New Jersey. On January 30, 2017, OCC filed an appeal against the recommendation of the Special Master. On June 17, 2016, Maxus filed for bankruptcy protection before the United States Bankruptcy Court for the District of Delaware, also seeking release from its main litigation liability, a petition the Court must rule on. On October 19, 2017, the judge decided to fully uphold the recommendations of the special master and, thus, uphold the motion for summary judgment presented by Repsol on its claim against OCC for \$65 million. The decision can be appealed. At the date of approval of these financial statements, the main proceeding remains under suspension.

## **4.11 Other information**

### ***Shareholder annual meeting***

The General Shareholders' Meeting of Repsol, S.A., held on May 19, 2017, approved all proposals submitted by the Board of Directors, including:

- the reelection of Mr. Manuel Manrique Cecilia, Mr. Rene Dahan and Mr. Luis Suárez de Lezo Mantilla, as directors for a further 4-year term;
- the ratification of the appointment made by cooptation and reelection of Mr. Antonio Massanell Lavilla as a director for a further 4-year term;
- the appointment of the following individuals as independent external directors for a 4-year term: Ms. Maria Teresa Ballester Fornés, Ms. Isabel Torremocha Ferrezuelo and Mr. Mariano Marzo Carpio, replacing Mr. Javier Echenique Landiribar, Ms. María Isabel Gabarró Miquel and Mr. Henri Philippe Reichstul;
- the reelection of Deloitte, S.L. as the auditor of Repsol, S.A. and the Group for 2017, in addition to the appointment of PricewaterhouseCoopers Auditores, S.L. as the auditor of Repsol, S.A. and the Group for 2018, 2019 and 2020.

## **(5) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH**

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

## APPENDIX I: SCOPE OF CONSOLIDATION

For the main companies comprising the Repsol Group, see Appendix I of the 2016 consolidated financial statements. The main changes in the Group's composition in the nine months ended September 30, 2017 are as follows:

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

Company	Country	Parent company	Item	Date	09.30.2017		
					Method of consolidation <sup>(1)</sup>	% voting rights acquired	% total voting rights following acquisition <sup>(2)</sup>
Repsol Exploración Aitolokamania, S.A.	Spain	Repsol Exploración, S.A.	Constitution	February-17	FC	100.00%	100.00%
Repsol Exploración Ioannina, S.A.	Spain	Repsol Exploración, S.A.	Constitution	February-17	FC	100.00%	100.00%
Air Miles España, S.A.	Spain	Repsol Comercial de Productos Petroliferos, S.A.	Increase stake	February-17	EM	1.67%	26.67%
OGCI Climate Investments, Llp.	United Kingdom	Repsol Energy Ventures, S.A.	Constitution	April-17	EM	14.29%	14.29%
Sorbwater Technology, A.S.	Norway	Repsol Energy Ventures, S.A.	Acquisition	May-17	EM	11.29%	11.29%
Pan Pacific Petroleum (Vietnam) Pty, Ltd.	Australia	Repsol Exploración, S.A.	Acquisition	June-17	FC	100.00%	100.00%
JSC Eurotek	Russia	AR Oil & Gaz, B.V.	Constitution	August-17	EM (J.V.)	100.00%	100.00%
JSC Yuzhno-Khadyrykhskoye	Russia	AR Oil & Gaz, B.V.	Constitution	August-17	EM (J.V.)	100.00%	100.00%
TNO (Tafnefteotdacha)	Russia	AR Oil & Gaz, B.V.	Increase stake	September-17	EM (J.V.)	0.02%	99.56%
Principle Power, Inc.	United States	Repsol Energy Ventures, S.A.	Increase stake	September-17	EM	0.89%	25.68%

<sup>(1)</sup> Method of consolidation:

FC: Full consolidation.

EM: Equity method. Joint ventures are identified as "J.V."

<sup>(2)</sup> Corresponds to the percentage of equity in the acquired company.

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

Company	Country	Parent company	Item	Date	09.30.2017			Profit/(Loss) generated (Million euros) <sup>(2)</sup>
					Method of consolidation <sup>(1)</sup>	% voting rights disposed of or derecognized	% total rights following disposal	
Talisman North Jabung, Ltd.	Canada	Talisman (Asia), Ltd.	Absorption	January 17	FC	100.00%	0.00%	-
Talisman (Ogan Komering) Ltd.	Canada	Repsol Oil & Gas Canada, Inc.	Disposal	March 17	FC	100.00%	0.00%	3
Repsol Central Alberta Partnership	Canada	Repsol Oil & Gas Canada, Inc.	Winding up	May 17	FC	100.00%	0.00%	-
Repsol Wild River Partnership	Canada	Repsol Oil & Gas Canada, Inc.	Winding up	May 17	FC	100.00%	0.00%	-
8787387 Canada, Ltd.	Canada	Repsol Oil & Gas Canada, Inc.	Winding up	May 17	FC	100.00%	0.00%	-
8441316 Canada, Ltd.	Canada	Repsol Oil & Gas Canada, Inc.	Winding up	May 17	FC	100.00%	0.00%	-
Talisman East Tanjung, B.V.	The Netherlands	Talisman International Holdings, B.V.	Winding up	June 17	FC	100.00%	0.00%	-
Talisman Sumatra, B.V.	The Netherlands	Talisman International Holdings, B.V.	Winding up	June 17	FC	100.00%	0.00%	-
Talisman Vietnam 45, B.V.	The Netherlands	Talisman International Holdings, B.V.	Winding up	June 17	FC	100.00%	0.00%	-
Talisman Vietnam 46-07, B.V.	The Netherlands	Talisman International Holdings, B.V.	Winding up	June 17	FC	100.00%	0.00%	-
Talisman International Holdings, B.V. S.C.S.	Luxembourg	Talisman Global Holdings, B.V.	Winding up	June 17	FC	100.00%	0.00%	-
Talisman Middle East, B.V.	The Netherlands	Talisman Global Holdings, B.V.	Absorption	June 17	FC	100.00%	0.00%	-
Talisman K. Holdings, B.V.	The Netherlands	Talisman Global Holdings, B.V.	Absorption	June 17	FC	100.00%	0.00%	-
TV 135- 136 Holding, B.V.	The Netherlands	Talisman International Holdings, B.V.	Absorption	June 17	FC	100.00%	0.00%	-
Talisman Global Holdings, B.V.	The Netherlands	Talisman International Holdings, B.V.	Absorption	June 17	FC	100.00%	0.00%	-
Talisman Energy (Sahara), B.V.	The Netherlands	Talisman International Holdings, B.V.	Absorption	June 17	FC	100.00%	0.00%	-
CSJC Eurotek- Yugra <sup>(3)</sup>	Russia	Repsol Exploración Karabashsky, S.A.	crease in shareholding	June 17	EM (J.V.)	25.02%	74.98%	6
Repsol Moray Firth, Ltd.	United Kingdom	Repsol UK Round 3, Ltd.	Winding up	July 17	FC	100.00%	0.00%	-
Repsol UK Round 3, Ltd.	United Kingdom	Repsol Nuevas Energías, S.A.	Winding up	July 17	FC	100.00%	0.00%	-
FEX GP, Llc.	United States	Repsol Oil & Gas USA, Llc.	Absorption	July 17	FC	100.00%	0.00%	-
Rock Solid Images US Group, Inc.	United States	Repsol USA Holdings Corporation	Disposal	August 17	EM	30.00%	0.00%	(1)
OJSC Eurotek	Russia	AR Oil & Gaz, B.V.	Winding up	August 17	EM (J.V.)	100.00%	0.00%	-
Repsol Oil & Gas Malaysia Holdings, Ltd.	Barbados	Talisman Oil Limited	Absorption	August 17	FC	100.00%	0.00%	-
Talisman Oil Limited	Barbados	Fortuna International Petroleum Corporat	Absorption	August 17	FC	100.00%	0.00%	-

<sup>(1)</sup> Method of consolidation:

FC: Full consolidation.

EM: Equity method. Joint ventures are identified as "JV".

<sup>(2)</sup> Corresponds to net income before tax.

<sup>(3)</sup> This company was fully consolidated prior to the sale of the 25% shareholding.

## **APPENDIX II: REGULATORY FRAMEWORK**

The activities of Repsol S.A. and its subsidiaries are subject to extensive regulation. The information provided in this section updates Appendix IV “*Regulatory Framework*” to the 2016 consolidated financial statements.

### **Brazil**

#### *Exploration and production*

On September 6, 2017, the National Agency of Petroleum, Natural Gas and Biofuel (ANP) published Resolution 698/2017 amending Resolution 25/2013, establishing rules applicable to the process of unitization of production in non-contracted free areas, where the owner of the area is the Federal Government, which is represented in cases where the area falls within the pre-salt area defined by Law 12.351/2019 by the state enterprise PPSA and, in other cases, by the ANP.

The new resolution introduced, for the division of expenses and investment, application in favor of the Federal Government of a ratio of expenses attributable to its holding of the shared field, which is the result of dividing the volume produced up to the contracting date of the free area and the total projected volume of the field in its Development Plan. Application of the ratio entails an imbalance with the owners of the contracted area that they should pay in addition to their investment in the part not undertaken by the Government due to use of the ratio. The imbalance resulting from past costs not equaled by the Federal Government should be negotiated with the new contracting party after the non-contracted free areas are eventually awarded.

### **Bolivia**

On August 9, 2017, Supreme Decree 3278 approved the Regulation of recoverable costs and approved reported costs, entailing repeal of Supreme Decree No. 29504 and establishing conditions, parameters and new requirements for the recognition, approval and publication by YPFB of recoverable costs and approved reported costs.

This Decree restricts the recoverability of capital costs by requiring that they must generate future profits and fall within an approved price range. It also includes new requirements for the submission, approval and amendment of work plans and budgets, and enacts restrictions for the signing of addenda to works contracts and service agreements, among other matters.

#### *Operating contracts*

On December 15, 2016 the Group signed with YPFB an Addendum to the Caipipendi Area Operating Contract, extending the term of the Contract, subject to implementation of the investment amounts determined by Laws Nos. 767 and 817.<sup>1</sup> After changes were made at the proposal of the Ministry of Hydrocarbons, on June 28, 2017, YPFB and the Holders signed a new Addendum replacing the one signed on December 15, 2016, which was again observed by YPFB. Owing to these observations, the Addendum has not yet entered into effect.

### **Indonesia**

On January 16, 2017, the Government of Indonesia introduced a new Gross Split Production Sharing Contract (PSC) model via Regulation No. 8/2017 of the Ministry of Energy and Mineral Resources (MERM). The Gross Split PSC contains no cost recovery mechanism, but features two components to establish the distribution of production, i.e., basic sharing components, subject to additional adjustments during the Development Plan phase.

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<sup>1</sup> Extension of 10 additional years (until May 2, 2041) according to amount of certified proved reserves at September 30, 2016 and an additional five years (counting from May 2, 2041), subject to certified proved reserves up to December 31, 2022.

By virtue of Regulation 8/2017, given that there is no cost recovery plan, the functions of the public regulatory body *Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi* (“SKK Migas”) are limited solely to the approval of contractor work schemes. The new model under Regulation 8/2017 does not terminate existing PSCs and only applies to new PSCs or renewals of existing PSCs. Contractors subject to any PSC that can be extended rather than replaced by the Gross Split PSC have the option of remaining under the previous PSC model, although subject to approval by the MERM.

## **Peru**

### *Refining and commercialization of hydrocarbons*

Law No. 28694 regulates the sulfur content of diesel fuel, stipulating that from, January 1, 2010, it is forbidden to sell diesel for domestic use with a sulfur content of over 50ppm, further banning the import of Diesel No. 1 and Diesel No. 2 fuel with a sulfur content of over 2500 ppm. This Law empowered the Ministry for Energy and Mining to establish, exceptionally, geographic regions in the interior of the country in which the sale of diesel with a higher sulfur content is permitted.

In addition, Supreme Decree No. 025-2017-EM establishes measures related to the sulfur content of diesel, gasoline and gasohol for marketing and use. The decree states that the sulfur content of high-octane gasoline and gasohol with ratings of 95, 97 and 98 marketed and used in the country may not exceed 50 ppm from January 1, 2018. Also, the La Libertad region is going to join the prohibition on the use and marketing of B5 diesel with a sulfur content in excess of 50 ppm from January 1, 2018.

## **Venezuela**

On August 4, 2017, the National Constituent Assembly (a national legislative body other than the National Assembly) was formally convened with the task of drafting of a new Constitution for Venezuela.

The State of Economic Emergency has been extended on nine (9) occasions. On September 15, 2017 there was issued Presidential Decree No. 3,074 again declaring a State of Economic Emergency throughout the country for a period of 60 days.

On March 29, 2017, the Venezuelan Supreme Court of Justice’s Constitutional Court issued a ruling declaring that the executive branch had the power to constitute mixed-ownership companies as established by Article 33 of the Organic Law of Hydrocarbons, with no need for prior authorization by the National Assembly. As established by the ruling, the aforementioned Constitutional Court shall be informed of all circumstances corresponding to said constitution and conditions, including special advantages afforded to the Republic, in addition to any subsequent change to the conditions of constitution, subject to a favorable ruling from the Ministry of Energy and Petroleum.

The ruling of April 1, 2017 of the Constitutional Court (TSJ) clarified the ruling of March 29, 2017, repeating its judgment concerning the alleged status of contempt and unconstitutional neglect of duty on the part of the National Assembly, and regarding which it issued an injunctive warning that as long as such contempt and neglect of duty continues, the Constitutional Court would ensure that the powers of parliament would be directly exercised by Court itself or by any body it should designate.

Its fourth dispositive provision confirms that there is no impediment to the executive branch incorporating public-private ventures in the spirit of Article 33 of the Organic Law of Hydrocarbons, for which purpose the executive branch, via the Ministry of Petroleum, shall inform the Court of all circumstances relating to such incorporation and the conditions thereof, including special advantages provided to the Republic. Any subsequent modification of the conditions should be reported to the Court, subject to a favorable report of the Ministry. Therefore, the Court maintains the provision in its ruling of March 29, 2017 authorizing the executive branch to create public-private ventures in the country without the approval of the National Assembly.

## APPENDIX III: OTHER DETAILED INFORMATION

### Financial Instruments

#### Financial assets

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

Million euros	September 30, 2017 and December 31, 2016													
	Financial assets held for trading <sup>(2)</sup>		Other financial assets at fair value with changes through profit or loss <sup>(2)</sup>		Financial assets available for sale <sup>(2)</sup>		Loans and receivables		Held to maturity investments		Hedging derivatives <sup>(2)</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Equity instruments	-	-	-	-	118	123	-	-	-	-	-	-	118	123
Derivatives	3	-	-	-	-	-	-	-	-	-	-	-	3	-
Other financial assets	-	-	56	56	-	-	1,016	1,025	-	-	-	-	1,072	1,081
<b>Long term / Non-current</b>	<b>3</b>	<b>-</b>	<b>56</b>	<b>56</b>	<b>118</b>	<b>123</b>	<b>1,016</b>	<b>1,025</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,193</b>	<b>1,204</b>
Derivatives	100	95	-	-	-	-	-	-	-	-	-	-	100	95
Other financial assets	-	-	10	10	-	-	1,328	1,247	4,580	4,679	-	-	5,918	5,936
<b>Short term / Current</b>	<b>100</b>	<b>95</b>	<b>10</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>1,328</b>	<b>1,247</b>	<b>4,580</b>	<b>4,679</b>	<b>-</b>	<b>-</b>	<b>6,018</b>	<b>6,031</b>
<b>TOTAL<sup>(1)</sup></b>	<b>103</b>	<b>95</b>	<b>66</b>	<b>66</b>	<b>118</b>	<b>123</b>	<b>2,344</b>	<b>2,272</b>	<b>4,580</b>	<b>4,679</b>	<b>-</b>	<b>-</b>	<b>7,211</b>	<b>7,235</b>

(1) Furthermore, there are trade accounts receivable under "Other non-current assets" and "Trade and other receivables", at September 30, 2017, €264 million in the long term and €5,052 million in the short term and at December 31, 2016, €323 million in the long term and €4,832 million in the short term.

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

#### Financial liabilities

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

Million euros	September 30, 2017 and December 31, 2016									
	Financial liabilities held for trading <sup>(2)</sup>		Loans and payables		Hedging derivatives <sup>(2)</sup>		Total		Fair Value	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Bank borrowings	-	-	1,081	1,491	-	-	1,081	1,491	1,060	1,496
Bonds and other securities	-	-	6,849	7,905	-	-	6,849	7,905	7,357	8,328
Derivatives	-	-	-	-	74	86	74	86	74	86
Other financial liabilities	-	-	4	-	-	-	4	-	4	-
<b>Long term / Non-current</b>	<b>-</b>	<b>-</b>	<b>7,934</b>	<b>9,396</b>	<b>74</b>	<b>86</b>	<b>8,008</b>	<b>9,482</b>	<b>8,495</b>	<b>9,910</b>
Bank borrowings	-	-	568	837	-	-	568	837	568	837
Bonds and other securities	-	-	3,481	2,855	-	-	3,481	2,855	3,494	2,875
Derivatives	185	303	-	-	2	3	187	306	187	306
Other financial liabilities <sup>(3)</sup>	-	-	2,926	3,193	-	-	2,926	3,193	2,926	3,193
<b>Short term / Current</b>	<b>185</b>	<b>303</b>	<b>6,975</b>	<b>6,885</b>	<b>2</b>	<b>3</b>	<b>7,162</b>	<b>7,191</b>	<b>7,175</b>	<b>7,211</b>
<b>TOTAL<sup>(1)</sup></b>	<b>185</b>	<b>303</b>	<b>14,909</b>	<b>16,281</b>	<b>76</b>	<b>89</b>	<b>15,170</b>	<b>16,673</b>	<b>15,670</b>	<b>17,121</b>

(1) There are also finance lease obligations at September 30, 2017 and December 31, 2016, for the sum of €1,364 million and €1,550 million recognized in "Other non-current liabilities", respectively, and €189 million and €208 million within "Other payables", respectively.

(2) Under "Fair value of financial instruments" in this Appendix information is provided about the classification of the financial instruments by hierarchy levels.

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



### Fair value of financial instruments

The classification of financial instruments recognized in the financial statements at fair value at September 30, 2017 and December 31, 2016, is as follows:

Million euros	September 30, 2017 and December 31, 2016							
	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Financial assets</b>								
Financial assets held for trading	24	6	79	89	-	-	103	95
Other financial assets at fair value with changes through profit or loss	66	66	-	-	-	-	66	66
Financial assets available for sale <sup>(1)</sup>	1	1	-	-	-	-	1	1
Hedging derivatives	-	-	-	-	-	-	-	-
<b>Total</b>	<b>91</b>	<b>73</b>	<b>79</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>170</b>	<b>162</b>
<b>Financial liabilities</b>								
Financial liabilities held for trading	120	215	65	88	-	-	185	303
Hedging derivatives	-	-	76	89	-	-	76	89
<b>Total</b>	<b>120</b>	<b>215</b>	<b>141</b>	<b>177</b>	<b>-</b>	<b>-</b>	<b>261</b>	<b>392</b>

Financial instruments recognized at fair value are classified at different levels in the fair value hierarchy, as described below:

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

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

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

<sup>(1)</sup> Does not include €117 million and €122 million at September 30, 2017 and December 31, 2016 corresponding to equity investments in companies that are measured at acquisition cost under IAS 39.

The valuation techniques used for instruments classified under level 2, in accordance with accounting regulations, are based on the income approach, which entail discounting either known or estimated future cash flows to present value, using discount curves from the market reference interest rates (in the case of derivative instruments, estimated using implied forward curves in the market), including adjustments for credit risk based on the life of the instruments. For options, price-setting models based on the Black & Scholes formula are used.

The most significant variables for valuing financial instruments vary depending on the type of instrument, but fundamentally include: exchange rates (spot and forward), interest rate curves, counterparty risk curves, prices of equities and the volatilities of all the aforementioned factors. In all cases, market data is obtained from reputed information agencies or correspond to quotes issued by official bodies.

## Segment reporting

The breakdown of revenue by segments between third-party revenue and inter-segment revenue is displayed below:

Segments	Million euros					
	Operating revenue from customers		Operating revenue from inter segment sales		Revenue	
	09/30/2017	09/30/2016	09/30/2017	09/30/2016	09/30/2017	09/30/2016
Upstream	3,375	2,930	1,160	589	4,535	3,519
Downstream	28,603	22,932	62	18	28,665	22,950
Corporate	1	-	-	3	1	3
(-) Inter-segment adjustments and eliminations of operating income	-	1	(1,222)	(610)	(1,222)	(609)
<b>TOTAL</b>	<b>31,979</b>	<b>25,863</b>	<b>-</b>	<b>-</b>	<b>31,979</b>	<b>25,863</b>

The reconciliation of other metrics disclosed in Note 3.4 with the IFRS-EU disclosures for the nine months ended September 30, 2017 and 2016 is as follows:

	Million euros		Million euros	
	Q3 2017	Q3 2016	30/09/2017	30/09/2016
<b>Revenue <sup>(1)</sup></b>	<b>10,588</b>	<b>9,318</b>	<b>31,979</b>	<b>25,863</b>
<i>Adjustments to joint ventures or other companies managed as such:</i>				
Upstream	(532)	(388)	(1,607)	(1,159)
Downstream	(11)	(9)	(24)	(24)
<b>IFRS-EU operating revenue <sup>(2)</sup></b>	<b>10,045</b>	<b>8,921</b>	<b>30,348</b>	<b>24,680</b>
<b>Capital employed <sup>(1)</sup></b>	<b>n.a.</b>	<b>n.a.</b>	<b>37,028</b>	<b>39,170</b>
<i>Adjustments to joint ventures or other companies managed as such:</i>				
Upstream	n.a.	n.a.	921	864
Downstream	n.a.	n.a.	18	13
<b>Capital employed</b>	<b>n.a.</b>	<b>n.a.</b>	<b>37,967</b>	<b>40,047</b>

<sup>(1)</sup> Figures compiled in keeping with the Group reporting model described in Note 2.6 “Segment reporting”.

<sup>(2)</sup> The IFRS-EU revenue figure corresponds to the sum of the “Sales” and “Services rendered and other income” headings on the income statement.

## APPENDIX IV: ALTERNATIVE PERFORMANCE MEASURES

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

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 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, the E&P Executive Committee and the Downstream Executive Committee) consults when making decisions in accordance with IFRS 8 “*Operating segments*”.

Repsol presents its segment results, including joint ventures<sup>3</sup> or other managed companies operated as such, 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** (CCS<sup>4</sup>), net of taxes and non-controlling interests. It does not include certain income and losses (*Special Items*) or the *Inventory Effect*. The **Financial result** is allocated to adjusted net income/loss in “*Corporate and other*”.

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

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<sup>1</sup> See Note 2.6

<sup>2</sup> 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).

<sup>3</sup> See Note 4.2 “*Investments accounted for using the equity method*”, which identifies the Group's main joint ventures.

<sup>4</sup> CCS is commonly used in this industry to present the results of *Downstream* businesses that have to work with huge inventories subject to continual price fluctuations. It is not a commonly-accepted European accounting regulation, yet it does enable the comparability with other sector companies as well as the monitoring of businesses independently of the impact of price variations on their inventories. Due to the above, Adjusted net income does not include the Inventory Effect.

### ***Inventory Effect***

This is the difference between the **Result from continuing operations at current cost of supply (CCS)** and the result calculated as the average weighted cost (AWC, which is an inventory valuation method used by the company to determine its results in accordance with European accounting regulations). It only affects the *Downstream* segment, in that for the **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. Apart from the above effect, the ***Inventory Effect*** includes other adjustments to the valuation of inventories (write-offs, economic hedges) and is presented net of taxes and 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 European accounting method which measures inventories, in that it contemplates purchase prices and historic production costs, valuing inventory at either the historic production cost or market value, whichever is lower.

### ***Special Items***

These are significant items that are considered useful to present separately in order to enable easy monitoring of the performance of ordinary business operations. Such items include capital gains/losses arising from divestitures, restructuring costs, impairments, and provisions for risks and expenses and they are presented net of taxes and non-controlling interests. Section 3.3 “*Results*” includes the Special Items recognized in the third quarter of 2017 and 2016. The following are the Special Items corresponding to the nine-month periods ended September 30, 2017 and 2016.

<i>Million euros</i>	<b>TOTAL</b>	
	<b>2017</b>	<b>2016</b>
Divestments	21	633
Workforce restructuring charges	(49)	(370)
Impairment	(25)	(34)
Provisions and other	(16)	(329)
<b>TOTAL</b>	<b>(69)</b>	<b>(100)</b>

The following is a reconciliation of adjusted income under the Group's reporting model with income under IFRS-EU:

Million euros	Nine months ended September 30											
	Adjusted result		ADJUSTMENTS								IFRS-EU profit/loss	
	2017	2016	Joint venture reclassification		Special Items		Inventory Effect <sup>(2)</sup>		Total adjustments		2017	2016
Operating income	2,407 <sup>(1)</sup>	1,503 <sup>(1)</sup>	(353)	(116)	(78)	30	(66)	1	(497)	(85)	1,910	1,418
Financial result	(339)	(385)	50	(5)	21	102	-	-	71	97	(268)	(288)
Net income from companies accounted for using the equity method – net of taxes	195	294	204	(42)	2	-	-	-	206	(42)	401	252
<b>Net income before tax</b>	<b>2,263</b>	<b>1,412</b>	<b>(99)</b>	<b>(163)</b>	<b>(55)</b>	<b>132</b>	<b>(66)</b>	<b>1</b>	<b>(220)</b>	<b>(30)</b>	<b>2,043</b>	<b>1,382</b>
Income tax	(530)	(161)	99	163	(14)	(233)	16	(1)	101	(71)	(429)	(232)
<b>Net income from continuing operations</b>	<b>1,733</b>	<b>1,251</b>	-	-	<b>(69)</b>	<b>(101)</b>	<b>(50)</b>	-	<b>(119)</b>	<b>(101)</b>	<b>1,614</b>	<b>1,150</b>
Income attributed to non-controlling interests	(31)	(27)	-	-	-	1	-	(4)	-	(3)	(31)	(30)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>1,702</b>	<b>1,224</b>	-	-	<b>(69)</b>	<b>(100)</b>	<b>(50)</b>	<b>(4)</b>	<b>(119)</b>	<b>(104)</b>	<b>1,583</b>	<b>1,120</b>

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

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

Million euros	Third quarter											
	Adjusted result		ADJUSTMENTS								EU-IFRS profit/loss	
	2017	2016	Joint venture reclassification		Special Items		Inventory Effect <sup>(2)</sup>		Total adjustments		2017	2016
Operating income	794 <sup>(1)</sup>	506 <sup>(1)</sup>	(132)	(8)	(29)	249	20	(7)	(141)	234	653	740
Financial result	(110)	(123)	11	(89)	16	120	-	-	27	31	(83)	(92)
Net income from companies accounted for using the equity method – net of taxes	60	88	116	(48)	2	-	-	-	118	(48)	178	40
<b>Net income before tax</b>	<b>744</b>	<b>471</b>	<b>(5)</b>	<b>(145)</b>	<b>(11)</b>	<b>369</b>	<b>20</b>	<b>(7)</b>	<b>4</b>	<b>217</b>	<b>748</b>	<b>688</b>
Income tax	(154)	(157)	5	145	(48)	(188)	(6)	2	(49)	(41)	(203)	(198)
<b>Net income from continuing operations</b>	<b>590</b>	<b>314</b>	-	-	<b>(59)</b>	<b>181</b>	<b>14</b>	<b>(5)</b>	<b>(45)</b>	<b>176</b>	<b>545</b>	<b>490</b>
Income attributed to non-controlling interests	(14)	(7)	-	-	-	(1)	(4)	(1)	(4)	(2)	(18)	(9)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>576</b>	<b>307</b>	-	-	<b>(59)</b>	<b>180</b>	<b>10</b>	<b>(6)</b>	<b>(49)</b>	<b>174</b>	<b>527</b>	<b>481</b>

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

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

## EBITDA:

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

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

Million euros	Nine months ended September 30							
	Group reporting model		Joint venture reclassification and other		Inventory Effect		IFRS-EU cash flow statement <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016	2017	2016
Upstream	2,421	1,435	(976)	(555)	-	-	1,445	880
Downstream	2,422	2,273	(9)	(8)	-	-	2,413	2,265
Corporate and other	(128)	(150)	12	8	-	-	(116)	(142)
<b>EBITDA</b>	<b>4,715</b>	<b>3,558</b>	<b>(973)</b>	<b>(555)</b>	-	-	<b>3,742</b>	<b>3,003</b>
<b>EBITDA CCS</b>	<b>4,781</b>	<b>3,557</b>	<b>(973)</b>	<b>(555)</b>	<b>(66)</b>	<b>1</b>	<b>3,742</b>	<b>3,003</b>

Million euros	Third quarter							
	Group Reporting Model		Joint venture reclassification and other		Inventory Effect		IFRS-EU cash flow statement <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016	2017	2016
Upstream	755	502	(334)	(135)	-	-	421	367
Downstream	904	688	(4)	(4)	-	-	900	684
Corporate and other	(52)	(49)	12	5	-	-	(40)	(44)
<b>EBITDA</b>	<b>1,607</b>	<b>1,141</b>	<b>(326)</b>	<b>(134)</b>	-	-	<b>1,281</b>	<b>1,007</b>
<b>EBITDA CCS</b>	<b>1,587</b>	<b>1,148</b>	<b>(326)</b>	<b>(134)</b>	<b>20</b>	<b>(7)</b>	<b>1,281</b>	<b>1,007</b>

<sup>(1)</sup> Corresponds to “*Net income before tax*” and “*Result adjustments*” on the consolidated cash flow statement 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 venture results excluding “*Special Items*” + Income taxes + Recurrent results from investees) / (Capital employed during the continuing operations period). **Capital employed** measures own and external capital invested in the company, and corresponds to total equity + *Net Debt*. It includes capital employed in joint ventures or other managed companies operated as such.

	<u>M9 17</u>	<u>M9 16</u>	
<b>NUMERATOR (Million euros)</b>			
<b>EU-IFRS operating income</b>	<b>1,910</b>	<b>1,418</b>	
Joint venture reclassification	353	116	
Special Items	78	(30)	
Income tax <sup>(1)</sup>	(619)	(300)	
Share of results of companies accounted for using the equity method, net of taxes	195	294	
<b>I. ROACE result at average weighted cost</b>	<b>1,917</b>	<b>2,557<sup>(2)</sup></b>	<b>1,498 1,976<sup>(2)</sup></b>
<b>DENOMINATOR (Million euros)</b>			
Total Equity		30,056	29,182
Net Financial Debt		6,972	9,988
<b>Capital employed at the end of the period</b>		<b>37,028</b>	<b>39,170</b>
<b>II. Average capital employed <sup>(3)</sup></b>		<b>38,142</b>	<b>39,726</b>
<b>ROACE (I/II)</b>		<b>6.7</b>	<b>5.0</b>

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

<sup>(2)</sup> Figure annualized by extrapolating data for the year.

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

## 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 used 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 shares. This APM measures the funds generated by the Company before financial transactions (mainly debt issuance and repayments).

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

	Nine months ended September 30					
	Adjusted cash flow		Joint venture reclassification and other		IFRS-EU cash flow statement	
	2017	2016	2017	2016	2017	2016
I. Cash flows from / (used in) operating activities	3,577	2,430	(309)	(188)	3,268	2,242
II. Cash flows from / (used in) investing activities	(1,901)	462	-	382	(1,901)	844
<b>Free cash flow (I+II)</b>	<b>1,676</b>	<b>2,892</b>	<b>(309)</b>	<b>194</b>	<b>1,367</b>	<b>3,086</b>
<b>Cash flow generated</b>	<b>708</b>	<b>1,897</b>	<b>(527)</b>	<b>(239)</b>	<b>181</b>	<b>1,658</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(1,764)	(2,089)	298	(58)	(1,466)	(2,147)
<b>Net increase / (decrease) in cash and cash equivalents (I+II+III)</b>	<b>(88)</b>	<b>803</b>	<b>(11)</b>	<b>136</b>	<b>(99)</b>	<b>939</b>
Cash and cash equivalents at the beginning of the period	4,918	2,769	(231)	(321)	4,687	2,448
Cash and cash equivalents at the end of the period	4,830	3,572	(242)	(185)	4,588	3,387

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

	Third quarter					
	Adjusted cash flow		Joint venture reclassification and other		IFRS-EU cash flow statement	
	2017	2016	2017	2016	2017	2016
I. Cash flows from / (used in) operating activities	1,402	658	(216)	(17)	1,186	641
II. Cash flows from / (used in) investing activities	(669)	1,459	(114)	127	(783)	1,586
<b>Free cash flow (I+II)</b>	<b>733</b>	<b>2,117</b>	<b>(330)</b>	<b>110</b>	<b>403</b>	<b>2,227</b>
<b>Cash flow generated</b>	<b>436</b>	<b>1,840</b>	<b>(552)</b>	<b>(325)</b>	<b>(116)</b>	<b>1,515</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(845)	(990)	313	(75)	(532)	(1,065)
<b>Net increase / (decrease) in cash and cash equivalents (I+II+III)</b>	<b>(112)</b>	<b>1,127</b>	<b>(17)</b>	<b>35</b>	<b>(129)</b>	<b>1,162</b>
Cash and cash equivalents at the beginning of the period	4,942	2,445	(225)	(220)	4,717	2,225
Cash and cash equivalents at the end of the period	4,830	3,572	(242)	(185)	4,588	3,387

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



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

	Nine months ended September 30								
	Group reporting model			Joint venture reclassification and other			IFRS - EU		
	Sept -17	Dec-16	Sep-16	Sept -17	Dec-16	Sep-16	Sept-17	Dec-16	Sep-16
Cash and cash equivalents	4,830	4,918	3,572	(242)	(231)	(185)	4,588	4,687	3,387
Undrawn credit lines	2,698	4,429	4,347	-	-	-	2,698	4,429	4,347
Cash deposits of immediate availability <sup>1</sup>	200	-	-	-	-	-	200	-	-
<b>Liquidity</b>	<b>7,728</b>	<b>9,347</b>	<b>7,919</b>	<b>(242)</b>	<b>(231)</b>	<b>(185)</b>	<b>7,486</b>	<b>9,116</b>	<b>7,734</b>

<sup>1</sup> New component. In a market situation with high levels of liquidity and negative remuneration rates, Repsol has contracted in this quarter time deposits but with immediate availability that have been recorded under the heading “Other current financial assets” and that do not meet the criteria to be classified as cash and cash equivalents.

### Net operating investments:

Group management uses this APM to measure each period’s volume of investment, and the allocation of investment by businesses segment, and it relates to investments in operations, net of divestments, by different Group businesses. It includes investments in joint ventures or other managed companies operated as such.

	Nine months ended September 30					
	Net operating investments		Joint venture reclassification and other		IFRS-EU cash flow statement <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016
Upstream	1,395	1,725	(292)	(488)	1,103	1,237
Downstream	408	(454)	(1)	164	407	(290)
Corporate and other	16	(1,878)	-	11	16	(1,867)
<b>TOTAL</b>	<b>1,819</b>	<b>(607)</b>	<b>(293)</b>	<b>(313)</b>	<b>1,526</b>	<b>(920)</b>

	Third quarter					
	Net operating investments		Joint venture reclassification and other		IFRS-EU cash flow statement <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016
Upstream	474	444	(109)	(112)	365	332
Downstream	163	(196)	(1)	165	162	(31)
Corporate and other	8	(1,893)	(8)	31	-	(1,862)
<b>TOTAL</b>	<b>645</b>	<b>(1,645)</b>	<b>(118)</b>	<b>84</b>	<b>527</b>	<b>(1,561)</b>

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

### 3. Financial position measures

#### *Debt and financial position ratios*

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

	Net Debt			Joint venture reclassification <sup>(1)</sup>			Figure according to IFRS-EU balance sheet		
	Sept -17	Dec-16	Sept -16	Sept -17	Dec-16	Sept -16	Sept -17	Dec-16	Sept -16
<b>Non-current assets</b>									
Non-current financial instruments <sup>(2)</sup>	374	424	79	699	657	593	1,073	1,081	672
<b>Current assets</b>									
Other current financial assets	238	52	26	1,122	1,228	1,261	1,360	1,280	1,287
Cash and Cash equivalents	4,830	4,918	3,574	(242)	(231)	(187)	4,588	4,687	3,387
<b>Non-current liabilities<sup>(3)</sup></b>									
Non-current financial debt	(8,155)	(9,540)	(9,627)	147	58	56	(8,008)	(9,482)	(9,571)
<b>Non-current liabilities<sup>(3)</sup></b>									
Current financial liabilities	(4,334)	(4,085)	(4,150)	(2,665)	(2,824)	(2,601)	(6,999)	(6,909)	(6,751)
<b>Items not included on the balance sheet</b>									
Net mark to market valuation of financial derivatives (ex: exchange rate) <sup>(4)</sup>	75	87	110	-	-	-	75	87	110
<b>NET DEBT</b>	<b>(6,972)</b>	<b>(8,144)</b>	<b>(9,988)</b>				<b>(7,911)</b>	<b>(9,256)</b>	<b>(10,866)</b>

- (1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:  
September 2016: (Cash and cash equivalents of €30 million and current financial liabilities as a result of an intra-group loan of €2,772 million, less €393 million in third-party loans)  
December 2016: (Cash and cash equivalents of €43 million and current financial liabilities as a result of an intra-group loan of €2,942 million, less €344 million in third-party loans)  
September 2017: (Cash and cash equivalents of €20 million and current financial liabilities as a result of an intra-group loan of €2,647 million, less €347 million in third-party loans)
- (2) Corresponds to the consolidated balance sheet heading, "Non-current financial assets" (but does not include 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 a measure used to analyze the Group's solvency; it includes its financial liabilities and the net fair value of its exchange rate derivatives.

	Gross debt			Joint venture reclassification and other			Figure according to IFRS-EU balance sheet		
	Sept -17	Dec-16	Sept -16	Sept -17	Dec-16	Sept -16	Sept -17	Dec-16	Sept -16
Current financial liabilities	(4,311)	(4,061)	(4,103)	(2,664)	(2,824)	(2,601)	(6,975)	(6,885)	(6,704)
Net market value of current foreign exchange derivatives	7	7	(32)	-	-	-	7	7	(32)
<b>Current Gross Debt</b>	<b>(4,304)</b>	<b>(4,054)</b>	<b>(4,135)</b>	<b>(2,664)</b>	<b>(2,824)</b>	<b>(2,601)</b>	<b>(6,968)</b>	<b>(6,878)</b>	<b>(6,736)</b>
Non-current financial liabilities	(8,080)	(9,452)	(9,516)	146	57	55	(7,934)	(9,395)	(9,461)
<b>Non-current Gross Debt</b>	<b>(8,080)</b>	<b>(9,452)</b>	<b>(9,516)</b>	<b>146</b>	<b>57</b>	<b>55</b>	<b>(7,934)</b>	<b>(9,395)</b>	<b>(9,461)</b>
<b>TOTAL GROSS DEBT</b>	<b>(12,384)</b>	<b>(13,506)</b>	<b>(13,651)</b>	<b>(2,518)</b>	<b>(2,767)</b>	<b>(2,546)</b>	<b>(14,902)</b>	<b>(16,273)</b>	<b>(16,197)</b>

The following ratios are based on debt and are used by Group management to evaluate leverage ratios as well as Group solvency.

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

**Debt coverage** corresponds 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 companies in the sector.

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 meet its current debt maturities 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 determines the company's ability to cover interest payments with its **EBITDA**.

Million euros	Nine months ended September 30					
	Group reporting model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2017	2016	2017	2016	2017	2016
Interest	268	328	(49)	(55)	219	273
EBITDA	4,715	3,558	(973)	(555)	3,742	3,003
<b>Interest cover</b>	<b>5.7%</b>	<b>9.2%</b>			<b>5.9%</b>	<b>9.1%</b>

Million euros	Third quarter					
	Group reporting model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2017	2016	2017	2016	2017	2016
Interest	85	104	(15)	(20)	70	84
EBITDA	1,607	1,141	(326)	(134)	1,281	1,007
<b>Interest cover</b>	<b>5.3%</b>	<b>9.1%</b>			<b>5.5%</b>	<b>8.3%</b>