



2012

Consolidated Management Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with regulatory financial reporting framework applicable to the Repsol Group (see Notes 3 and 39). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Repsol, S.A.:

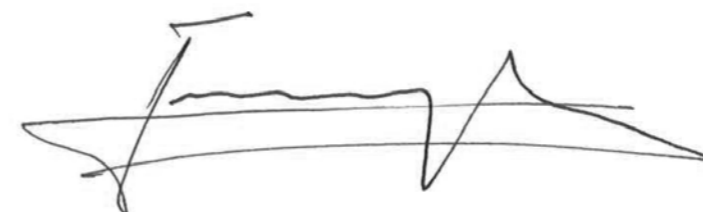
We have audited the consolidated financial statements of Repsol, S.A. and Subsidiaries (the Repsol Group), which comprise the consolidated balance sheet at December 31, 2012 and the related consolidated income statement, consolidated statement of recognised income and expenses, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements for the year then ended. As indicated in Note 3.1 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Repsol Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Repsol, S.A. and Subsidiaries at December 31, 2012, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

Without qualifying our audit opinion, we draw attention to the changes in the composition of the Repsol Group described in Note 5 to the accompanying consolidated financial statements, which indicates that the carrying amount at which the Group has recognised its 51% ownership interest in YPF S.A. was calculated on the basis of the best estimates of the directors of Repsol, S.A., taking into account the uncertainties concerning the outcome of the various lawsuits in progress or that might be initiated in the future. Also, as indicated in Note 3.3 to the accompanying consolidated financial statements, as a result of the aforementioned changes in the composition of the Repsol Group and pursuant to current accounting legislation, the comparative figures in the consolidated income statement and the consolidated cash flow statement for the year ended December 31, 2011 differ from those contained in the consolidated financial statements of the Repsol Group at that date.

The accompanying consolidated management report for 2012 contains the explanations which the directors of Repsol, S.A. consider appropriate about the situation of the Repsol Group, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Repsol, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Jorge Izquierdo Mazón

February 27, 2013



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General overview and economic-financial information

Macroeconomic environment

In 2012 the economic recovery continued, albeit with less force, driven by growth in emerging economies. Global Gross Domestic Product (GDP) growth slowed from 3.8% to 3.2% per year, chiefly due to a relapse into recession in the Eurozone. In 2013 economic activity is expected to increase and forecasts for 2014 place the growth at close to 4%.

Highlights for 2012 include the relative strength of the two leading economies: United States and China. The United States economy grew annually by 2.2% compared to 1.8% in 2011, thanks to continued improvement in consumer spending and private employment along with important developments in oil and gas industry. China, the world's second-largest economy, grew by 7.9% year-on-year thanks to its wide margin of monetary policy flexibility and the implementation of ambitious domestic reform and investment programs that reduced its balance of trade surplus from 9% of GDP in 2008 to around 3% today.

Growth in Latin America remained stable although moderating to 3% owing to less favorable external conditions. Likewise the growth in the value of exports from the region slowed from 23.9% in 2011 to an estimated variation of 1.6% in 2012.

In developed economies, efforts to reduce public and private debt, coupled with the fragility of the financial system, kept growth down. This has particularly been the case in a number of eurozone countries.

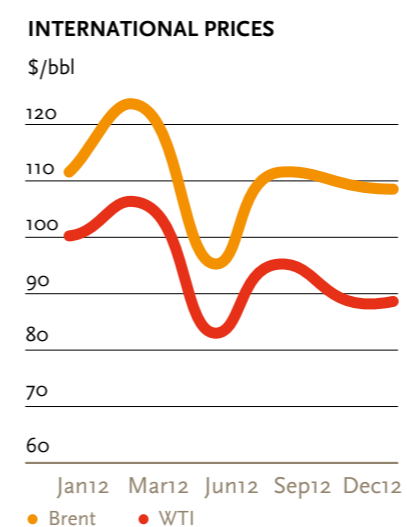
The link between bank risk and sovereign risk in Europe acquired singular importance in 2012. In June, once the deadline to achieve the capitalization ratios imposed by the European Banking Authority (EBA) to systemic banks had expired, the Spanish government requested financial aid from the European Union to recapitalize several financial institutions. Spain's eurozone partners made €100,000 million available and agreed to move towards a European Banking Union under a supranational supervisor with a common deposit guarantee fund and powers to directly recapitalize or, if necessary, liquidate banks in any member state.

A major turning point in the eurozone crisis occurred in July following the unambiguous defense by the European Central Bank of the irreversibility of the euro and the announcement of its willingness to buy, under certain conditions, government bonds of member states facing difficulties. All this, coupled with the negotiations that succeeded in preventing the United States fiscal cliff, reduced uncertainty in the markets and allowed a recovery in confidence, increasing the appetite for risk.

With regard to the Spanish economy, the effects of fiscal consolidation, the negative evolution of the job market and the credit crunch converted external demand into the chief source of dynamism for domestic activity. However, the contribution of the external sector failed to offset declines in both public and private consumption or investment. Therefore 2012 ended with GDP down by 1.4%. There were also some positive trends throughout the year in key variables such as further adjustments of unit labor costs, improvements in the current account balance and increased private sector activity.

Oil price correction

2012 has been a year of strong oil price volatility, in response to upheavals in the economic and geopolitical context. However, in the annual averages of Brent crude barrel, the 2012 price remained just above the price of 2011, i.e. \$111.67 per barrel compared to \$111.30 in the previous year. In euros, the prices were €86.86 per barrel in 2012 compared to €79.95 in 2011. The price profile underwent three very distinct stages throughout the year.



In the first stage, from January to March, the uncertainty generated by the possible closure of the Strait of Hormuz by Iran represented a geopolitical premium on prices that led to Brent crude to trade above \$125 per barrel.

Then, during the period from March to June, the tension from conflict eased and gave way to concerns about weak economic growth both in Europe and China. All this led to a reduction in the price of Brent crude of almost \$30 from its peak in March.

From August onwards Brent prices fluctuated between \$109 and \$113, responding up or down according to geopolitical and economic factors. The spread between the main international oil types, Brent and WTI, again reached a maximum towards the end of the year with an annual average spread of \$17 per barrel. Among the factors influencing this spread, has been the significant new increase in the production of Light Tight Oil in the United States.

The Group's activities

Repsol Group's activities are divided into four business areas, three of which correspond to integrated strategic divisions and include the group's entities in the following areas:

- Upstream, relating to the exploration and production of oil and natural gas;
- LNG, relating to midstream operations (liquefaction, transport and regasification) of natural gas and to market operations for natural gas and liquefied natural gas; and
- Downstream, corresponding to refining and marketing activities involving oil products, chemicals, and liquefied petroleum gas.

Finally, Gas Natural Fenosa, represents Repsol's strategic stake in the Gas Natural Fenosa Group, which mainly engages in natural gas marketing and the generation, distribution, and marketing of electricity.

Until financial year 2012 the Group had also considered YPF as a business area, which included the operations of YPF S.A. and its Group companies. Repsol has lost control of YPF S.A. since the Argentinian government began the expropriation proceedings for part of the Group's shareholdings in that company (see the section "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.").

Organizational structure

The Annual General Meeting is the sovereign corporate body through which the shareholders can take part in the company's key decisions, while the Board of Directors is responsible for the governance, management and administration of the company's business interests for all matters not reserved to the competence of the General Meeting.

In general, the Board of Directors entrusts the day-to-day handling of ordinary business to the Executive Committee and the management team, concentrating its efforts on general supervision and considering matters of particular importance to the company.

To ensure greater efficiency and transparency in the performance of its functions, the Board of Directors has appointed internal committees with executive and consulting powers: the Delegate Committee, acting as a delegated body of the Board, the Audit and Control Committee, the Nomination and Compensation Committee and the Strategy, Investment and Corporate Social Responsibility Committee which are three special committees that carry out supervision, information, consulting and proposal tasks.

The Executive Committee, consisting of the Chief Executive Officer and the General Directors, is responsible for defining and implementing the strategy and control of Repsol Group's operations.

Change in the organizational structure

To promote the development of the new Strategic Plan and with a focus on its future outlook, in May 2012 a new top level organizational structure was approved. To facilitate business growth, a Business Units Executive Managing division (COO) was created along with two new executive divisions (EMD Exploration and Production and EMD Industrial and New Energy Unit) that joined as new members of the Executive Committee. A new Executive division of Sales and Marketing merged the European and Global LPG sales departments. Furthermore, a Control and Strategy Executive Managing division was created with the

aim of promoting the active development of the company's strategy, based on anticipating opportunities, controlling management and promoting technology as the driving force for transformation.

This process of change came to a head in November with the approval by the Executive Committee of the deployment of these modifications throughout the company's organization hierarchy and different divisions.

On one hand changes were introduced in the business areas. In Exploration and Production, the Safety and the Environment division was promoted to first level; confirming its priority status for the business, and its technical functions and research roles were reinforced. In EMD Industrial and New Energy, the new organizational structure aims to develop synergies between the industrial compounds to maximize their efficiency and strengthen the Chemicals internationalization strategy. In the Executive division of Sales and Marketing the changes respond to the need to create more synergies between the businesses that make up the Executive division of Sales and Marketing, with the aim of ensuring operational excellence and cost optimization.

On the other hand, changes were introduced in the field of corporate functions aimed, firstly, at strengthening the long-term strategic vision and channeling efforts towards strategic objectives by strengthening the company's risk management mechanisms and, secondly, to develop and deploy the corporate culture based on the necessary values and conduct and to enhance the professional progress and training of personnel.

Strategic plan 2012-2016

In recent years Repsol has consolidated a growth strategy that has enabled it to develop new areas of business, diversify its portfolio of assets and incorporate key projects that today uphold its position in the global energy sector.

Following the publication of the Law to expropriate the Repsol Group's shares in YPF S.A. and YPF Gas S.A. (see section below "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.") on May 29, 2012 Repsol presented its Strategic Plan for 2012-2016, based on the following strategies:

1. Upstream growth
2. Maximizing Downstream and LNG returns
3. Financial strength
4. Competitive shareholder remuneration.

1) Upstream Growth (Exploration and Production)

The Upstream sector drives Repsol's growth and focuses on investments in exploration activity and the development of 10 key projects, among which are some of the most significant oil finds in recent years. These projects are:

1. Sapinhoa (formerly Guar) in Brazil
2. Carioca in Brazil
3. Mid-continent in United States (Mississippi Lime)
4. Reggane in Algeria
5. Lubina - Montanazo in Spain
6. AROG in Russia
7. Margarita-Huacaya in Bolivia
8. Kinteroni in Peru
9. Carabobo in Venezuela
10. Cardn IV in Venezuela

The estimated investment for the period 2012-2016 in the Upstream branch is €14,700 million, representing roughly 77% of the total investments under the Strategic Plan. The average annual investment in the Upstream business stands at €2,940 million, exceeding investment in previous years by 20%.

The 10 major projects involve a total combined investment of €6,700 million. In addition to these key projects other contingent resources will continue to be outlined such as those already drilled in Alaska, Brazil (Seat, Po de Aucar, Gavea, Malombe Iguazu, Piracuca-Pan-

oramix-Vampira, Albacora pre-salt), Libya (NC200), Sierra Leone and the Gulf of Mexico (Buckskin), which together with the exploitation of the producing fields represent a total investment during the period of €4,000 million.

Finally, an annual average of \$1,000 million will be devoted to exploration; corresponding to about 25-30 wells per year.

The goal for 2016 is to increase hydrocarbon production by more than 200,000 barrels of oil equivalent per day, with an average annual growth of over 7%, while achieving a reserve replacement ratio of over 120%.

2) Maximizing Downstream and LNG returns

The Downstream area has become a source of cash flow, with the successful completion and commissioning of the expansions at the Cartagena and Petronor (Bilbao) refineries, which increased Repsol's conversion capacity and operational efficiency.

This expansion is expected to produce an improvement in refining margins of between \$2 and \$3 per barrel processed throughout Repsol's refineries in Spain.

The average free cash flow expected to be generated by the Downstream area is €1,200 million per year and the average investment stands at 750 million per year in that period. These investments are primarily in the maintenance of industrial and commercial installations along with energy and operational efficiency improvements, representing a reduction of 50% on the average annual investment over the period 2008-2011.

Meanwhile, Repsol's liquefied natural gas (LNG) business will take advantage of the integration across the value chain, with the objective of maximizing the profitability of Repsol's portfolio of assets in the Atlantic and Pacific basins.

3) Financial strength

Repsol's financial position and the divestment of non-strategic assets will enable the self-financing of the investments included in the 2012-2016 Strategic Plan, maintaining the Group's credit rating.

4) Competitive shareholder remuneration

The last of Repsol's strategic pillars is to establish a competitive remuneration policy for its shareholders.

Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.

On April 16, the Argentinian government began proceedings to expropriate YPF and YPF Gas (formerly "Repsol YPF Gas S.A.", changing its name to "YPF Gas S.A." according to the agreement of the general meeting of shareholders of that company held on July 6, 2012, and challenged by Repsol, see Note 1 of the Consolidated Financial Statements) from Repsol Group. That day, it decreed the takeover of the company, appointing an intervenor with all of the powers of its Board of Directors. This intervenor immediately assumed control of management.

After a fast parliamentary procedure, Law 26,741, which declares the 51% of Class D shares in YPF S.A. and the 51% of shares in Repsol YPF Gas, S.A. owned by the Repsol Group of public interest and subject to expropriation, entered into force on May 7. Since that date, the Argentinian government has had the authority to exercise the rights conferred by the shares to be expropriated without any prior payment of compensation.

From that point onwards, the appropriate expropriation process should be set in motion. In accordance with Argentine Law, a fair and adequate compensation should be established –if necessary by a court ruling– and paid prior to the occupation and acquisition of the expropriated assets.

Both the general meetings of shareholders of YPF, SA, held on June 4 and July 17, 2012, as well as the general meeting of YPF Gas, S.A., held on July 6, 2012, have been challenged by Repsol, S.A. and by Repsol Butano, S.A., respectively, considering, among other arguments, that they were not validly constituted as having derived from an illegitimate and unconstitutional expropriation process.

According to Repsol, the expropriation is manifestly unlawful and highly discriminatory (it only affects YPF S.A. and YPF Gas S.A. and no other oil and gas companies in Argentina; while also additionally it is expropriating solely the participating interest of one shareholder of YPF S.A. and YPF Gas S.A., namely Repsol, and not the other shareholders), the public interest

it pursues is not justified in any way and it is a clear breach of the obligations assumed by the Argentinian government when the privatization of YPF took place.

Repsol has already initiated legal actions for (I) the violation of the "Agreement between the Argentinian Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection of Investments "; (II) the unconstitutionality of the takeover of YPF and YPF Gas and of the temporary seizure by the Argentinian government of the rights over 51% of the shares in YPF SA and YPF Gas SA directly or indirectly owned by Repsol, S.A. and Repsol Butano, S.A., respectively; (III) the failure of the Argentinian government to meet its obligation to launch a tender offer for the shares of YPF S.A. before taking control of the company; (IV) other legal proceedings brought to prevent illegitimate use by third parties of certain assets belonging to YPF.

Repsol is confident that such a flagrant violation of the most fundamental principles of legal certainty and respect for business done in good faith will not be ignored by the international investment community, and will receive the appropriate response from the courts and bodies for the settlement of international disputes.

The accounting effect of these events is reflected in the Group's Financial Statements 2012. Repsol has lost control of the management of YPF and YPF Gas and, accordingly, it shall proceed with its deconsolidation as from April 16, involving:

- a) Derecognize all assets, liabilities, and minority interests, as well as translation differences as appropriate.

The net amount of this de-recognition amounts to €4,779 million, of which, €4,720 million relates to YPF, and the rest related to YPF Gas. This amount includes €605 million of cumulative exchange differences in the equity of both companies up to the time control was lost.

- b) Revalue other assets and liabilities related to investments in YPF affected by the change in control and the expropriation process. This includes the loans and guarantees related to Petersen Group's financing of the acquisition of its ownership interest in YPF.

The net value of assets derecognized for this concept initially stood at €1,402 million, matching the provision provided for the share of the loan granted by Repsol that is not covered by the pledge of shares. On the other hand the Group recorded a provision for liabilities and expenses totaling €54 million which covers the maximum liabilities undertaken by Repsol, as guarantor of Petersen, less the value of the shares pledged as a counter-guarantee (0.56% of the share capital of YPF).

- c) Recognize the shareholding of Repsol Group in YPF and YPF Gas S.A. as a financial investment (shares), from the shares subject to expropriation –which still belong to the Group– as well as the remaining shares owned by Repsol Group (51% subject to expropriation of both companies and 6.43% regarding YPF and 33.997% regarding YPF Gas in remaining shares at the end of the period).

These shares, for accounting purposes, have been valued according to their fair or realizable value.

In the case of YPF shares not subject to expropriation, this fair value will be the official market price at which these shares are traded.

In the case of the YPF shares subject to expropriation, which are not publicly listed, the fair value corresponds to the expected recoverable value as a result of the expropriation process, which in turn should be established based on the market value of such shares before any threat of expropriation emerged, calculated in accordance with internationally accepted methods for valuing companies and as ultimately determined in the arbitration proceedings at the International Center for Settlement of Investment Disputes (ICSID) which Repsol has recently initiated.

Notwithstanding the foregoing, Repsol has pointed out since the day after the expropriation that, regardless of the market value of the shares to which it is entitled, Articles 7 and 28 of the by-law of YPF S.A. state that, if control is taken by the Argentinian Government, the purchaser must launch a tender offer for all the Class D shares of YPF S.A., with a price payable in cash and calculated in accordance with predetermined criteria that constitute, for the purposes of accounting the shares, a valid reference for estimating the minimum compensation that Repsol should obtain. According to the estimate by Repsol of the amount resulting from the application of this method, the valuation of 100% of YPF, at the time of the expropriation, is not less than \$18,300 million (€13,864 million, calculated at the closing exchange rate on December 31, 2012), and \$9,333 million (€7,070 million) for the 51% stake subject to expropriation.

However, for accounting purposes, it should be remembered the risks and uncertainties inherent to estimations of future events that, to a large extent, are beyond Repsol's control. For this reason, the company has prudently focused on recognizing the shares subject to expropriation in the accounting records, avoiding a situation where a higher valuation forces the initial recognition of a profit arising from the expropriation process that, to date, is still a contingency.

For the reasons stated above, the shares in YPF (51% subject to expropriation and 6.43% in remaining shares) have been initially recognized for a value of €5,623 million while the shares in YPF Gas (those subject to expropriation and the remaining stake) at €50 million.

Any amendment to the hypotheses considered reasonable both in the jurisdictional processes and the valuation of the rights expropriated could result in positive or negative changes in the amount for which the shares in YPF and YPF Gas have been recognized and, therefore, could have an impact on the Group's financial statements.

- d) Recognize deferred tax assets of €524 million resulting from the tax effects of the abovementioned operations.

As a consequence of the aforementioned effects arising from the expropriation process, the net impact on the income statement of the Group was a loss of €38 million. This loss was recognized under the heading "Net income from discontinued operations after taxes".

In accordance with International Financial Reporting Standards (IFRS), the activities of YPF and YPF Gas are considered to have been discontinued and the results arising from these activities until the loss of control, as well as impact on the income statement derived from the expropriation process, have been recognized under the headings for discontinued operations, net of taxes on Repsol's consolidated income statement at December 31, 2012 and 2011.

Note 5 of the Consolidated Financial Statements for the financial year 2012, "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A." includes additional information on the YPF and YPF Gas expropriation process.

The table below contains certain figures of the Repsol Group from the financial statements of December 31, 2011 which, pursuant to IFRS 5, "Non-current assets held for sale and discontinued operations" must be restated to classify the operations related to the expropriation as discontinued activities.

Millions of euros	Consolidated Group restated 31/12/2011	Consolidated Group formulated in 2011 31/12/2011
REPSOL GROUP (according to IFRS)		
EBITDA	5,494	8,440
Operating profit from continued operations	3,549	4,805
Net income from discontinued operations after taxes	777	–
Net income attributable from discontinued operations to the parent company	536	–

At December 31, 2011, YPF had proven reserves of 1,013 million barrels of oil equivalent (585 million barrels of liquids and 2,399 billion cubic feet of gas), which represented 46% of proven reserves of the consolidated Group on that date. Since the loss of control by Repsol, said volumes do not constitute part of the Repsol Group's proven reserves. Meanwhile, in 2011 YPF production reached 181 million barrels of oil equivalent (100 million barrels of liquids and 453 billion cubic feet of natural gas), which represented 62% of the Group's total production for that financial year.

Results

During the financial year 2012 management of the company gradually consolidated the strength of Repsol's businesses, particularly after the illegal expropriation of YPF in April 2012.

The Group's results for 2012 and 2011 are as follows:

Millions of euros	2012	2011 ^(*)	% VARIATION
Upstream	2,208	1,413	56.3%
LNG	535	386	38.6%
Downstream	1,013	1,182	(14.3%)
Gas Natural Fenosa	920	887	3.7%
Corporate	(390)	(319)	22.3%
Operating income	4,286	3,549	20.8%
Financial result	(857)	(862)	(0.6%)
Share of results of companies accounted for using the equity method – net of tax	117	72	62.5%
Net income before tax	3,546	2,759	28.5%
Income tax	(1,581)	(991)	59.5%
Income from continuing operations	1,965	1,768	11.1%
Net income from continuing operations attributable to minority interests	(75)	(111)	(32.4%)
Net income from continuing operations attributable to the parent	1,890	1,657	14.1%
Net income from discontinued operations after taxes	279	776	(64.1%)
Net income from discontinued operations attributable to minority interests	(109)	(240)	(54.6%)
Net income from discontinued operations attributable to the parent	170	536	(68.3%)
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	2,060	2,193	(6.1%)

^(*) Includes the necessary modifications with respect to the income statement for the period 2011 included in the management report, in relation to the expropriation process of Repsol in YPF S.A. and YPF Gas S.A. according to what is described in the "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A."

Repsol's net income amounted to €2,060 million in 2012. Operating income came in at €4,286 million, while EBITDA amounted to €6,956 million. Earnings per share came to €1.70. In 2011, net income amounted to €2,193 million, while operating income and EBITDA stood at €3,549 million and €5,494 million, respectively.

Operating income for the Upstream division (Exploration and Production) rose from €1,413 million at December 31, 2011, to €2,208 million in 2012, representing an increase of 56.3%, driven by increased production and transaction prices and the appreciation of the dollar against the euro. The increase in production is mainly due to the resumption of activity in Libya, the entering into production of Phase I in Margarita (Bolivia) and the positive progress of operations in the United States as a result of the development wells drilled after the lifting of the drilling moratorium and the start of production of the Mississippian Lime assets. In Trinidad and Tobago, however, production declined compared to the previous year owing to the maintenance stops made during the year.

In 2012 the Liquefied Natural Gas (LNG) business generated net income of €535 million compared to €386 million in 2011. This increase is primarily due to higher margins and sales volumes of LNG in 2012, partially offset by higher transport costs in North America.

Operating income in the Downstream division came in at €1,013 million, as opposed to the €1,182 million in the previous year. 2012 was marked by the launch of the expansion of the Cartagena and Bilbao refineries, allowing improvements in refining margins by increasing

and optimizing production. However, results have fallen over the previous year due to the impact on inventories of evolving prices of crude oil and oil products, lower sales volumes in commercial divisions as a result of the economic crisis and the fall in margins and sales volumes in the chemical division owing to the international environment.

Repsol's 30% stake in Gas Natural Fenosa generated an operating profit of €920 million, compared to €887 million in 2011, mainly due to diversification and the increasing contribution at international level and the balance provided by the business profile of Gas Natural Fenosa which compensated the effect on income from divestments carried out in 2011 and the stagnation of income from the regulated electricity business in Spain owing to the impact of Royal Decree-Law 13/2012.

The net financial result of the consolidated Group was negative, coming in at €857 million compared to €862 million at year-end 2011. Increased interest expenses resulting from higher average debt balances and the rising cost of preference shares have been offset by the positive result, mainly due to the appreciation of the dollar against the euro, related to net long dollar positions held occasionally throughout the year.

Corporation tax amounted to €1,581 million in 2012, with an effective tax rate of 46% (37% at year-end 2011). This increase in the effective tax rate is mainly due to increased net income from businesses with high tax burdens, such as Upstream, and prominently, in Libya.

Net income from discontinued operations in 2011 includes income net of taxes and minority interests contributed by YPF S.A. and YPF Gas S.A. and the subsidiaries of both companies. In 2012, in addition to these results from the beginning of the year until the loss of control, the effects related to the expropriation process are also included.

Financial overview

The Group's consolidated net financial debt at the end of 2012 amounted to €8,938 million compared to €9,724 million at December 31, 2011 (excluding the debt incurred by YPF and YPF Gas). Taking into account preference shares, net financial debt at the end of 2012 stood at €12,120 million, compared to €12,903 million at December 31, 2011.

The Group's net financial debt excluding Gas Natural Fenosa, i.e. excluding the proportional integration of the figures relating to this company, was €4,432 million at December 31, 2012, compared to €6,775 million the preceding year. The net debt mentioned at year-end 2011 included the debt generated by YPF and YPF Gas amounting to €1,939 million. Excluding this contribution, the total net debt at said date would have been €4,836 million, that compared with net debt at year-end 2012, is a reduction of €404 million. The evolution of debt during the year was influenced by the significant operating cash flow generated by the businesses, coupled with divestments, and in particular, the sale of the LPG business in Chile. Also noteworthy were the successful implementation of the Repsol Flexible Dividend program and the treasury share operations performed throughout the year (see details in this section). Finally, and in the opposite sense, the evolution of the debt was influenced by the provision recognized for the loan to the Petersen Group to purchase YPF (see the section "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.").

Taking into account the preference shares, the net financial debt excluding Gas Natural Fenosa amounted to €7,432 million at December 31, 2012, in comparison to €7,836 million at December 31, 2011 (excluding the debt generated by YPF and YPF Gas).

The following table provides a breakdown of changes in net financial debt during financial year 2012:

	Consolidated Group	Consolidated Group exc. Gas Natural Fenosa
Millions of euros	2012	2012
Net debt at the beginning of the period	11,663	6,775
Elimination of net debt YPF and YPF Gas at 31.12.11	(1,939)	(1,939)
Net debt of consolidated Group at 31/12/2011 exc. YPF and YPF Gas	9,724	4,836
EBITDA	(6,956)	(5,419)
Variation in trade working capital	(696)	(758)
Collection/Payments for tax on profits	1,534	1,365
Investments ⁽¹⁾	3,878	3,279
Divestments ⁽¹⁾	(941)	(637)
Dividends and other payments to shareholders	947	885
Treasury shares operations	(1,388)	(1,388)
Currency translation differences	46	43
Interest and other movements ⁽²⁾	1,203	639
Effects associated with Petersen Group loans	1,587	1,587
Net debt at year-end	8,938	4,432

⁽¹⁾ For the consolidated Group at December 31, there are financial investments amounting to €29 million and financial divestments amounting to €203 million, not reflected in this table.

⁽²⁾ Mainly includes interest, dividends received, provisions applied and the effect of changes in the corporate environment.

The EBITDA for the year, together with the reduction of trade working capital, has allowed the payment of taxes, investments and interests to be fully covered.

During 2012, payments on investments reached €3,907 million. For more detailed information on operating investments by business area, please head to the relevant section of this report covering the business area in question.

Under the divestments heading it is worth noting the sale of the liquefied petroleum gas (LPG) business in Chile and the stake in exploration and production assets in Ecuador through the company Amodaimi.

The shares of Repsol, S.A. are listed on the continuous market of the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and of Buenos Aires (Bolsa de Comercio de Buenos Aires). Until March 4, 2011, shares in the form of American Depositary Shares (ADS), were listed on the New York Stock Exchange. Since March 9, 2011, its ADS program is quoted on the OTCQX market, a platform within United States over-the-counter (OTC) markets that distinguishes issuers with better market information policies and solid business activities.

On January 10, 2012, Repsol paid its shareholders with dividend rights an interim dividend for profits in 2011 of €0.5775 gross per share, approved by Repsol's Board of Directors on 30 November 2011 for a total gross disbursement of €635 million.

In 2012, for the first time, Repsol launched the Repsol Flexible Dividend Program, approved by the Annual General Meeting held on May 31, 2012, substituting what would have been the traditional final dividend payment for 2011 and the interim dividend for financial year 2012. The system is implemented through two capital increases against voluntary reserves derived from retained earnings, with the Repsol's purchase commitment of free-of-charge allocation rights at a guaranteed fixed price. Under this program, Repsol offers its shareholders the opportunity to receive their remuneration, in whole or in part, in new paid-up shares issued by the company or in cash by selling the free-of-charge allocation rights received, either on the market at the share trading price or to the company.

On June 19, 2012, the Repsol Board of Directors approved the execution of the first of the capital increase approved by the Annual General Meeting (item ten of the agenda).

The holders of 63.64% of the free-of-charge allocation rights opted to receive their remuneration in new shares of the company at the proportion of one new share for every 22 rights, which resulted in the issuance of 35,315,264 new shares (2.89% of the share capital prior to the increase). The holders of the remaining 36.36% chose to accept Repsol's irrevocable commitment to purchase at a gross price of €0.545 per right, with payment being made to shareholders on July 10, 2012 and resulting in a gross disbursement of €242 million. Repsol renounced the shares corresponding to the rights acquired under the purchase commitment.

The capital increase was registered in the Commercial Registry of Madrid on July 10, 2012. The new shares began trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Spanish Automated Quotation System (Mercado Continuo) on July 13, 2012 and were subsequently listed on the Buenos Aires Stock Exchange.

Meanwhile, on December 19, 2012, the Board of Directors of Repsol approved the execution of the second capital increase approved by the Annual General Meeting (eleventh point of the agenda). Holders of 69.01% of free-of-charge allocation rights opted to receive new shares of the company in the proportion of one new share for every 33 rights, which resulted in the issuing of 26,269,701 new shares (2.09% of the share capital before the capital increase). The holders of the remaining 30.99% chose to accept Repsol's irrevocable commitment to purchase at a gross price of €0.473 per right, with payment being made to shareholders on January 15, 2013 and resulting in a gross disbursement of €184 million. Repsol renounced to the shares corresponding to the rights acquired under the purchase commitment.

The capital increase was registered in the Commercial Registry of Madrid on January 15, 2013 and on January 18, 2013 the new shares commenced their ordinary trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Spanish Automated Quotation (Mercado Continuo). The company also applied for the listing of the new shares on the Buenos Aires Stock Exchange.

Among the treasury operations for 2012 it is worth highlighting the placement of 61,043,173 shares in the company, representing 5% of the share capital on that date, that Repsol closed in the first days of January among qualified and professional investors. The placement price was €22.35 per share, representing an amount of €1,364 million. These shares were part of the treasury shares acquired on December 20, 2011, at a price of €21.066 per share, arising from the decision by the creditor banks of Sacyr Vallehermoso not to renew the credit previously awarded to acquire a stake in Repsol, or to condition partial refinancing on the sale of 10% in Repsol.

In 2012 Repsol acquired treasury shares representing 0.28% of the share capital after the capital increases described above and at a nominal value of one euro per share, for a value of €52 million. Repsol also transferred shares representing 0.37% of the share capital for a gross cash amount of €76 million.

Moreover, within the framework of the Share Acquisition Plan approved at the Annual General Meeting of April 15, 2011, the company purchased a total of 585,441 shares in Repsol, S.A. in 2012, representing 0.046% of its share capital, the cost of which amounted to €9.15 million, delivered to Group employees in accordance with the aforementioned Plan.

The aforementioned acquisitions were carried out by virtue of the powers that the Annual General Meeting of April 30, 2010 vested in the Board of Directors, authorizing "the derivative acquisition of shares in Repsol, S.A., on one or more occasions, by purchase, swap or any other onerous legal business modality, directly or through subsidiaries, up to a maximum number of shares which, added to those already held by Repsol, S.A. and its subsidiaries, does not exceed 10% of share capital of the company and for a price or equivalent value that may not be lower than the nominal value of the shares, nor exceed their quoted price on the stock exchange".

The authorization remains valid for five years running from the date of the Annual General Meeting, leaving without effect, in the unused part, the authorization conferred by the previous Annual General Meeting held on May 14, 2009.

On the occasion of the first of the capital increases described earlier in this section, in July the Group received a total of 2,936,789 new shares for the shares held in treasury, representing 0.23% of Repsol's share capital after the capital increase (1,256,178,727 shares).

In January 2013, following the second of the capital increases described in this paragraph, the Group received a total of 1,904,926 new shares for the shares held in treasury, representing 0.15% of Repsol's capital after the aforementioned capital increase.

At December 31, 2012, the treasury shares held by Repsol or any of the Group companies represented 5.1% of its total share capital.

The main financing activities undertaken by Repsol in the year were as follows:

- On January 19, 2012 Repsol International Finance B.V., guaranteed by Repsol, S.A., closed a bond issue at 7 years and 1 month for €750 million, with a fixed interest rate of 4.875% and an issue price of 99.937%, equivalent to 292 basis points over mid-swaps. This issuance was made under the Euro 10,000,000,000 Guaranteed Euro Medium Term Note Program of Repsol International Finance, B.V. registered with the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg ("MTN Program") and the bonds issued are currently listed on the Luxembourg stock exchange.
- On February 7, 2012 Repsol International Finance BV, guaranteed by Repsol, S.A., closed a new Eurobond issue for an amount of €250 million, with fixed interest rate of 4.875%, at an issue price of 103.166%, equivalent to 241.5 basis points over mid-swaps. This issue forms a single series with the Eurobond issue mentioned in the previous section. With this expansion the nominal amount of the issue stood at €1,000 million.
- Between June and July 2012 the Group received funding by taking out certain derivative instruments, with a term of 12 months and for a total amount of €1,000 million. With regard to the payment obligations of such derivative instruments, the Group provided financial pledge guarantees, as governed by Royal Decree Law 5/2005, over a total of 104,762,387 shares of Gas Natural SDG, owned by the Repsol Group, which account for 10.47% of the share capital of that company. The operations mentioned do not involve a transfer of ownership of the shares in Gas Natural SDG, S.A., for which at all times Repsol retains political and economic rights inherent to them, and they are applied as "Bank borrowings" under the heading "Bank borrowings, bonds and other securities" in the Group's balance sheet.
- On September 13, Repsol International Finance B.V., guaranteed by Repsol, S.A., closed a bond issue at 5 years and 5 months for €750 million, with a fixed interest rate of 4.375% and an issue price of 99.654%, equivalent to 335 basis points over mid-swaps, currently listed on the Luxembourg Stock Exchange. This issue was made under the auspices of the MTN Program of Repsol International Finance B.V. and the bonds issued are currently listed on the Luxembourg Stock Exchange.

Financial prudence

Repsol holds, in line with its policy of financial prudence, sufficient available cash resources and other liquid financial instruments, including undrawn lines of credit, to cover the debt maturities for at least the next two years, and covering 76% of its entire gross debt and 63% thereof including preference shares. In the case of Repsol, excluding Gas Natural Fenosa, these same resources cover 93% of gross debt and over 71% if we include the preference shares.

Financial investments included under the headings of Note 13 to the Consolidated Financial Statements as "Other financial assets at fair value through profit or loss", "Loans and receivables" (without including tariff deficit) and "Held to maturity investments" (which include cash and cash equivalents) amount to €6,657 million, €5,240 million of which correspond to Repsol, without including Gas Natural Fenosa. The Group also has committed, unused lines of credit at its disposal for an amount of €4,425 million (excluding Gas Natural Fenosa), down from the €4,225 million at the end of 2011 (excluding Gas Natural Fenosa). For the consolidated Group as a whole, committed, unused lines of credit amounted to €5,899 and €5,482 million as of December 31, 2012 and 2011, respectively, 74% of which falls due after December 31, 2012.

Net debt and the net debt to capital employed ratio, in which capital employed refers to net debt plus net equity, provide a true and fair view of the volume of necessary borrowings and their relative weighting in the funding of capital employed in transactions.

	DECEMBER 31,			
	Consolidated Group exc. YPF		Consolidated Group ex Gas Natural Fenosa + ex YPF	
Millions of euros, except ratios	2012	2011 ^(*)	2012	2011 ^(*)
I Net financial debt	8,938	9,724	4,432	4,836
II Preference shares	3,182	3,179	3,000	3,568
III Net financial debt, including preference shares	12,120	12,903	7,432	8,404
IV Capital employed	39,592	41,885	34,426	36,329
V Capital employed continuing operations	33,716	33,067	28,550	27,511
Net financial debt/capital employed (I/IV)	22.6%	23.2%	12.9%	13.3%
Net financial debt, including preference shares/capital employed (III/IV)	30.6%	30.8%	21.6%	23.1%
Net debt/capital employed for continuing operations (I/V)	26.5%	29.4%	15.5%	17.6%
Net debt including preference shares/capital employed of continuing operations (III/V)	35.9%	39.0%	26.0%	30.5%

^(*) Data not audited

Below is a breakdown of Repsol's current credit rating:

	Standard & Poor's	Moody's	Fitch
Short-term debt	A-3	P-3	F-3
Long-term debt	BBB-	Baa3	BBB-

Risk factors

Repsol's operations and earnings are subject to risks as a result of changes in competitive, economic, political, legal, regulatory, social, industrial, business and financial conditions. Investors should carefully consider these risks. Any of these risks could have a negative impact on Repsol's financial position, the business or operating income.

Furthermore, future risk factors, either unknown or not considered relevant by Repsol at present, could also affect the company's business, results, and financial situation.

Operational risks

Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.

For Repsol, the main risk arising from the illegal expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A. lies in the uncertainty that exists with regard to the restitution of the shares in YPF S.A. and YPF Gas, S.A. subject to expropriation and belonging to Repsol and/or with regard to the amount of compensation to be paid by the Argentinian government to Repsol as a consequence of the appropriation of control of both companies, as well as the timing and manner in which the payment will be made. Repsol has been forced to assert its rights against the Argentinian state before the courts of Argentina and other jurisdictions, including arbitration before ICSID. Any amendment to the hypotheses considered reasonable in jurisdictional processes and the valuation of the rights expropriated could result in positive or negative changes in the amount for which the shares in YPF S.A. and YPF Gas, S.A. have been recognized and, therefore, could have an impact on the Group's financial statements. The lower the price or compensation received per share in YPF S.A. and YPF Gas, S.A., the

more negative the impact will be on Repsol's results or financial position. Nevertheless, Repsol cannot foresee all consequences, uncertainties and risks; nor can it quantify the total future impact the expropriation could have on the business, financial position and results of the Repsol Group.

Uncertainty of the current economic context

The slow economic recovery is leading to an increase in long-term unemployment in many countries, thus incurring high economic and social costs. Additionally, although the European Union has made significant institutional reforms, among which is the agreement towards a European banking union, the doubts about the irreversible status of the euro have not disappeared entirely. Therefore, short-term uncertainties remain high.

European banks, given the difficulties of recapitalizing in the market, have been forced to reduce their assets and issue new loans. The lack of credit for the private sector and for new projects is feeding back on the recession cycle affecting the eurozone. These difficulties are not unique to the eurozone; the United Kingdom, United States and Japan must also recover their economic growth in an extremely adverse scenario marked by the need for progress on fiscal consolidation and with a financial system that is undergoing full recapitalization and restructuring.

Persistent pressure on the sustainability of government finances in advanced economies has led to strong tensions in credit markets, and could prompt fiscal reforms or changes in the regulatory framework of the oil and gas industry. Finally, the economic-financial situation could have a negative impact on third parties with whom Repsol does or could do business. Any of the factors described above, whether in isolation or in combination with each other, could have an adverse effect on the financial position, businesses, or results from Repsol operations.

Potential fluctuations in international prices of crude and reference products and in demand owing to factors beyond Repsol's control

World oil prices have fluctuated widely over the last ten years and are driven by international supply and demand factors over which Repsol has no control. The world oil market and oil prices are swayed heavily by political developments throughout the world (especially in the Middle East); the evolution of stocks of oil and derivatives; the circumstantial effects of climate changes and meteorological phenomena, such as storms and hurricanes that particularly strike the Gulf of Mexico; the evolution of technology and greater energy efficiency; spikes in demand in countries with strong economic growth, such as China and India; major world conflicts, as well as the political instability and threat of terrorism that periodically affect certain producing areas; and also, the risk that the supply of crude oil may be wielded as a political weapon. In 2012, Brent crude oil prices averaged \$111.67 per barrel, as opposed to an average of \$72.05 per barrel reported over the 2003-2012 period. In that decade, the average annual maximum was \$111.67 per barrel registered in 2012, and the annual average minimum price was \$28.83, in 2003. In 2011, the range of prices for crude oil (Brent) stood between approximately \$94 and \$126 per barrel, while in 2012 was between approximately \$89 and \$128 per barrel. In 2012 the average dollar/euro exchange rate stood at 1.28, compared to an average of 1.39 in 2011.

International oil prices and demand for crude oil may also fluctuate significantly during economic cycles.

Reductions in oil prices negatively affect Repsol's profitability, the value of its assets and its plans for investment, including projected capital expenditures related to exploration and development activities. Similarly, a significant drop in capital investment could negatively affect Repsol's ability to replace its crude oil reserves.

International product prices are influenced by the price of oil and the demand for products, therefore, the international prices of crude and products affect the refining margin.

Regulation of Repsol's operations

The oil industry is subject to extensive regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling and exploration obligations, restrictions on production, price controls, required divestments of assets, foreign currency controls, and the development and nationalization, expropriation or cancellation of contractual rights. Such legislation and regulations apply to virtually all aspects of Repsol's operations both inside and outside Spain. In addition, the legislation of certain countries envisages the imposition of sanctions on non-domestic

companies that make certain investments in other countries. In addition, the terms and conditions of the agreements governing Repsol's oil and gas interests generally reflect the regulatory framework of the country in question and/or the negotiations held with governmental authorities, and therefore vary significantly by country and even from one area to another within the same country. These agreements generally take the form of licenses or production sharing agreements. Under license agreements, the license holder finances and bears the risk of the exploration and production activities in exchange for the resulting production, if any. Moreover, part of the production may have to be sold to the state or the state-owned oil company. License holders are generally required to make certain tax or royalty payments and pay income tax on their production, which can be high when compared with the taxes paid by other businesses. Nevertheless, production sharing agreements generally require the contractor to finance exploration and production activities in exchange for the recovery of its costs from part of production (cost oil), while the remainder of production (profit oil) is shared with the state-owned oil company.

Meanwhile, the gas and electrical distribution sectors, in which Repsol operates primarily through its investment in Gas Natural Fenosa, respond to activities that are regulated in most countries. The legislation applicable to these sectors is typically subject to regular review by the competent authorities, which may affect, among other things, the current remuneration system for regulated activities.

Repsol cannot foresee changes to such laws or their interpretation, or the implementation of certain policies, which could adversely affect its business, results and financial position.

The Repsol Group is subject to the effects of administrative, judicial and arbitration proceedings

The Repsol Group is subject to the effects of administrative, judicial and arbitration proceedings arising from the performance of its activities. In particular, in the section "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A." of the annual accounts, there is a description of the legal action brought by Repsol as a consequence of that expropriation. Likewise, Repsol could be involved in other potential future litigation the scope, content or outcome of which Repsol cannot predict. All present or future litigation involves a high degree of uncertainty and, therefore, the resolution of these disputes could affect the business, results or financial position of the Repsol Group.

Repsol is subject to extensive environmental and safety regulations and risks

Repsol is subject to extensive environmental and safety laws and regulations in practically all the countries where it operates, which regulate, among other matters affecting the Group's operations, environmental quality standards for products, air emissions and climate change, energy efficiency, water discharges, remediation of soil and groundwater, and the generation, storage, transportation, treatment and final disposal of waste materials and safety.

In particular, and due to concerns over the risk of climate change, a number of countries have adopted, or are looking into adopting, new regulatory requirements to reduce greenhouse gas emissions, such as carbon taxes, increasing efficiency standards, or adopting emissions trading schemes. These requirements could make Repsol's products more expensive as well as shift hydrocarbon demand toward relatively lower-carbon sources, such as renewable energies. In addition, compliance with greenhouse gas regulations may also require Repsol to upgrade its facilities, monitor or sequester emissions or take other actions that may increase the cost of compliance.

These laws and regulations have had and will continue to have an impact on Repsol's business, financial situation and results of operations.

Operating risks related to exploration and exploitation of oil and gas, and reliance on the cost-effective acquisition or discovery of, and, thereafter, development of new oil and gas reserves

Oil and gas exploration and production activities are subject to particular risks, some of which are beyond the control of Repsol. These activities are exposed to production, equipment and transportation risks, natural hazards and other uncertainties relating to the physical characteristics of oil and natural gas fields. Repsol's operations may be curtailed, delayed or cancelled as a result of weather conditions, technical difficulties, delays in the delivery of equipment or compliance with administrative requirements. In addition to this, some of the development projects are located in deep waters and other difficult environments, such as the Gulf of Mexico, Alaska, Brazil and the Amazon rainforest, or in complex oilfields, which

could aggravate these risks further. Offshore operations, in particular, are subject to maritime risks, among them storms and other adverse meteorological conditions, or shipping collisions. Furthermore, hydrocarbon transport methods imply inherent risks: by road, rail or sea transport, or by pipeline, oil or another hazardous substance could leak, this poses a significant risk due to the potential impact a spill could have on the environment and on people, especially considering the high volume of products that can be carried at any one time. Should these risks materialize, Repsol may suffer major losses, interruptions to its operations and harm to its reputation.

Moreover, Repsol must replace depleted oil and gas reserves with new proven reserves in a cost-effective manner that enables subsequent production to be economically viable. Repsol's ability to acquire or discover new reserves is, however, subject to a number of risks. For example, drilling may involve negative results, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs are taken into account. In addition, crude oil and natural gas production blocks are typically auctioned by governmental authorities and Repsol faces intense competition in bidding for such production blocks, in particular those blocks offering the most attractive potential reserves. Such competition may result in Repsol failing to obtain desirable production blocks, or otherwise acquiring them at a higher price, which could render subsequent production economically unviable.

If Repsol fails to acquire or discover, and, thereafter, develop new oil and gas reserves in a cost-effective manner, or if any of the aforementioned risks materializes, its business, results of operations and financial situation could be materially and adversely affected.

Location of reserves

Part of Repsol's oil and gas reserves are located in countries that are or could be economically or politically unstable.

Reserves in these areas as well as related production operations may be exposed to risks, including increases in taxes and royalties, the establishment of limits on production and export volumes, the compulsory renegotiation or cancellation of contracts, the nationalization or denationalization of assets (see the risk factor "Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A."), changes in local government regimes and policies, changes in business customs and practices, payment delays, currency exchange restrictions and losses and impairment of operations due to the actions of insurgent groups. In addition, political changes may lead to changes in the business environment. Economic downturns, political instability or civil disturbances may disrupt the supply chain or limit sales in the markets affected by such events.

If any of the above risks materializes, the Group's business, results of operations and financial situation could be significantly and adversely affected.

Oil and gas reserves estimation

In calculating proven oil and gas reserves, Repsol relies on the guidelines and the conceptual framework of the Securities and Exchange Commission (SEC) definition of proven reserves and on the criteria established by the Petroleum Reserves Management System of the Society of Petroleum Engineers (PRMS-SPE). Under these rules, proven oil and gas reserves are those reserves of crude oil, natural gas or natural gas liquids for which, after analyzing geological, geophysical and engineering data, have a reasonable certainty of being produced –from a given date, from known reservoirs and under existing economic conditions, existing technology and existing government regulation– prior to the termination of the contracts whereby the corresponding operational rights were awarded, and regardless of whether probabilistic or deterministic approaches were used to arrive at the estimate. The project to extract the gas or oil must have started, or otherwise the operator must be reasonably certain that the project will commence within a reasonable timeframe.

The accuracy of these estimates depends on a number of different factors, assumptions and variables, some of which are beyond Repsol's control. Factors susceptible to Repsol's control include drilling, testing and production after the date of the estimates, which may require substantial upward or downward revisions to reserves estimates; the quality of available geological, technical and economic data used and its interpretation and valuation thereof; the production performance of reservoirs and recovery rates, both of which depend in significant part on available technologies as well as the company's ability to implement such technologies and the relevant know-how; the selection of third parties with which the group enters into business; and the accuracy of its initial estimates of hydrocarbons in

place at a given reservoir, which may prove to be incorrect or require substantial revisions. On the other hand, factors mainly beyond Repsol's control include changes in prevailing oil and natural gas prices, which could impact the quantities of proven reserves (since estimates of reserves are calculated under existing economic conditions when such estimates are made); changes in prevailing tax rules, other government regulations and contractual conditions after the date estimates are made (which could render reserves economically unviable to exploit); and certain actions of third parties, including the operators of fields in which the Group has an interest.

As a result of the foregoing, measures of reserves are not precise and are subject to revision. Any downward revision in estimated quantities of proven reserves could adversely impact company results, leading to increased depreciation, depletion and amortization charges and/or impairment charges, which would reduce earnings or shareholders' equity.

Repsol's natural gas operations are subject to particular operational and market risks

Natural gas prices tend to vary between the different regions in which Repsol operates as a result of significantly different supply, demand and regulatory circumstances, and such prices may be lower than prevailing prices in other regions of the world. In addition, excess supply conditions that exist in some regions cannot be utilized in other regions due to a lack of infrastructure and difficulties in transporting natural gas.

In addition, Repsol has entered into long-term contracts to purchase and supply natural gas in various parts of the world. These contracts have different price formulas, which could result in higher purchase prices than the price at which such gas could be sold in increasingly liberalized markets. Furthermore, gas availability could be subject to the risk of counterparties breaching their contractual obligations. Thus, it might be necessary to look for other sources of natural gas in the event of non-delivery from any of these sources, which could require payment of higher prices than those envisaged under the breached contracts.

Repsol also has long-term contracts to sell and deliver gas to clients, mainly in Bolivia, Venezuela, Spain, Trinidad and Tobago, Peru and Mexico that present additional types of risks since they are pegged to existing proven reserves in Bolivia, Venezuela, Trinidad and Tobago and Peru. Should available reserves in those countries prove insufficient, Repsol might not be able to satisfy its obligations under these contracts, some of which include penalty clauses for breach of contract. The above risks may adversely affect Repsol's business, results and financial situation.

Cyclical nature of petrochemical activity

The petrochemicals industry is subject to wide fluctuations in supply and demand, reflecting the cyclical nature of the chemicals market on a regional and global scale. These fluctuations affect the prices and profitability of petrochemicals companies, including Repsol. Repsol's petrochemicals business is also subject to extensive governmental regulation and intervention in such matters as safety and environmental controls. Both fluctuations, and changes in regulations may have an adverse effect on the business, financial position and results of Repsol's operations.

Projects and operations developed through joint ventures and partnerships

Many of the Repsol Group's projects and operations are conducted through joint ventures and partnerships. In those cases where Repsol does not act as the operator, its ability to control and influence the performance and management of the operations, and to identify and manage risks is limited. Additionally, there is a possibility that one of Repsol's partners or another member in a joint venture or associated company fails to comply with its financial obligations or incurs in another a breach that could affect the viability of a project.

Repsol's current insurance coverage may not be sufficient for all the operational risks

As discussed in several of the risk factors mentioned in this document, Repsol's operations are subject to extensive economic, operational, regulatory and legal risks. Repsol holds insurance covering against certain risks inherent in the oil and gas industry in line with industry practice, including loss or damage to property and equipment, control-of-well incidents, loss of production or income incidents, removal of debris, sudden and accidental seepage, pollution, contamination clean-up costs, and claims for damages brought by third parties, including personal injury and loss of life, among other business risks. Moreover, insurance

coverage is subject to deductibles and limits that in certain cases may be materially exceeded by its liabilities. In addition, Repsol's insurance policies contain exclusions that could leave the Group with limited coverage in certain events. On the other hand, Repsol may not be able to maintain adequate insurance at rates or on terms considered reasonable or acceptable, or be able to obtain insurance against certain risks that could materialize in the future. If the company experiences an incident against which it is not insured, or the costs of which materially exceed its coverage, it could have a material adverse effect on its business, financial situation and results of operations.

Financial risks

Group business is exposed to different kinds of financial risk, including:

Liquidity risk. Liquidity risk is associated with the Group's ability to finance its obligations at reasonable market prices, as well as being able to carry out its business plans with stable financing sources.

See chapter on liquidity under the "Financial Prudence" section of this report.

Credit risk. The Group's credit risk exposure mainly relates to trade accounts payable, which are measured and controlled by individual client or third party. To this end, the Group has its own systems, in line with best practices, for constantly monitoring the creditworthiness of all its debtors and for determining the risk limits of third parties.

As a general rule, the Group establishes a bank guarantee issued by financial entities as the most suitable instrument of protection from credit risk. In some cases, the Group has taken out credit insurance policies to transfer partially the credit risk related to the commercial activity of some of its businesses to third parties.

The Group also has exposure to counterparty risk arising from non-commercial contractual operations that may lead to defaults. In these cases, the Group analyzes the counterparties with which it maintains or could maintain non-commercial contractual relations.

Market risk

- **Exchange rate fluctuation risk:** Changes in exchange rates may adversely affect Repsol's operational result and the value of its assets.

In general, this exposure to exchange rate risk stems from the existence in the Group companies of assets, liabilities and cash flows denominated in a currency other than the company's operating currency, with particular emphasis on the fact that:

- monetary flows of international trade operations in oil, natural gas and refined products are usually denominated in US dollars.
- many of Repsol's financial assets and investments are also denominated in US dollars.

Furthermore, it should be borne in mind that:

- cash flows of the operations carried out in the countries in which Repsol is active are exposed to changes in exchange rates of the applicable local currencies against the major currencies used for listing the commodities which serve as reference for establishing prices in the local currency.
- Repsol presents its financial statements in euros, and therefore, the assets and liabilities of subsidiaries operating with a operating currency other than the euro, must be converted into that currency.

To mitigate exchange rate risks, and when it considers appropriate, Repsol performs financial transactions in those currencies in which foreign exchange risk exposures have been identified and can hedge the risk with derivative financial instruments in currencies where there is a liquid market and reasonable transaction costs.

Note 21 "Financial risk and capital management" and Note 22 "Derivative transactions" in the Consolidated Financial Statements for financial year 2012 include additional details on the financial risks described in this section and the hedging transactions performed.

- **Commodity price risk.** In the normal course of operations and trading activities, the Repsol Group earnings are exposed to volatility in the price of oil, natural gas, and related derivative products (see the risk factors "Potential fluctuations in international prices of reference crude and in demand owing to factors beyond the Repsol's control" and "Repsol's natural gas operations are subject to particular operational and market risks"). Note 22 "Derivative transactions" in the Consolidated Financial Statements for financial year 2012 include additional details on the financial risks described in this section.

- **Interest rate risk:** Changes in interest rates can affect the interest income and expenses of financial assets and liabilities tied to floating interest rates and the fair value of financial assets and liabilities with fixed rate commitments.

To mitigate interest rate risks, and when it considers appropriate, Repsol can hedge the risk with derivative financial instruments where there is a liquid market and with reasonable transaction costs.

Note 21 “Financial risk and capital management” and Note 21 “Derivative transactions” in the Consolidated Financial Statements for financial year 2012 include additional details on the financial risks described in this section and the hedging transactions performed.

- **Credit rating risk:** At present, the credit ratings assigned to Repsol, S.A. by ratings agencies are as follows:

TERM	STANDARD & POOR'S	MOODY'S	FITCH RATINGS
Long	BBB-	Baa3	BBB-
Short	A-3	P-3	F-3
Outlook	Stable	Negative	Stable
Date of last review	JUNE 22, 2012	JUNE 29, 2012	JANUARY 31, 2013

Credit ratings affect the cost and other conditions under which the Repsol Group is able to obtain finance. Any downgrade in Repsol S.A.'s credit rating could restrict or limit the access of the Group to financial markets, increase the cost of any new finance, and have a negative effect on its liquidity.

Business areas

The Group's main operating highlights are shown below:

	2012	2011
Upstream:		
Oil and gas net production ⁽¹⁾	121,671	109,059
LNG:		
Production of liquefaction trains ^{(2) (3)}	5.4	5.4
LNG sold ⁽³⁾	10.2	11.0
Downstream:		
Refining capacity ⁽⁴⁾	998	998
Europe ⁽⁵⁾	896	896
Rest of the world	102	102
Processed crude oil ⁽⁶⁾	37.0	31.5
Europe	33.4	27.9
Rest of the world	3.6	3.6
Number of service stations	4 549	4,506
Europe	4,216	4,211
Rest of the world	333	295
Oil product sales ⁽⁷⁾	42,744	37,805
Europe	38,277	33,548
Rest of the world	4,467	4,257
Petrochemical product sales ⁽⁷⁾	2,308	2,659
By region:		
Europe	1,997	2,311
Rest of the world	311	348
By product:		
Base products	731	889
Derivative petrochemicals	1,577	1,770
LPG sales ^{(7) (8)}	2,537	2,698
Europe	1,414	1,486
Rest of the world ⁽⁸⁾	1,123	1,212
Gas Natural Fenosa:		
Natural gas distribution sales ^{(9) (10)}	409,774	395,840
Electricity distribution sales ^{(9) (10)}	54,362	54,067

⁽¹⁾ Thousands of barrels of oil equivalent (kboe).

⁽²⁾ Including liquefaction train production according to their shareholding. Trinidad [Train 1 (20%), Trains 2 and 3 (25%), Train 4 (22.22%); Peru LNG (20%)]. Of this production, 3.3 bcm in 2012 and 3.2 bcm in 2011 belong to companies consolidated in the Repsol Group through the equity method.

⁽³⁾ Billions of cubic meters (bcm).

⁽⁴⁾ Thousand barrels per day (kbb/d).

⁽⁵⁾ The reported capacity includes the shareholding in ASES.

⁽⁶⁾ Millions of tons.

⁽⁷⁾ Thousands of tons.

⁽⁸⁾ 2011 does not include sales of YPF Gas.

⁽⁹⁾ Including 100% of reported Gas Natural Fenosa sales, even though Repsol had a 30.01% share at December 31, 2012, accounted for through proportional consolidation.

⁽¹⁰⁾ Gigawatts per hour (GWh).

Abbreviations used for units of measurement

"bbl"	Barrels
"bcf"	Billion cubic feet
"bcm"	Billion cubic meters
"boe"	Barrels of oil equivalent
"Btu"	British thermal unit
"GWh"	Gigawatts per hour
"kbbbl"	Thousand barrels
"kbbbl/d"	Thousand barrels per day
"kboe"	Thousand barrels of oil equivalent
"kboe/d"	Thousand barrels of oil equivalent per day
"km ² "	Square kilometers
"Mbbbl"	Million barrels
"Mboe"	Million barrels of oil equivalent
"Mm ³ /d"	Million cubic meters per day
"Mscfd"	Million standard cubic feet per day
"MW"	Megawatts
"MWe"	Electrical megawatts
"MWh"	Megawatts per hour
"TCF"	Trillion cubic feet

Upstream**Activities**

The Repsol Upstream division includes oil and natural gas exploration and production, and the company manages its project portfolio in order to achieve profitable, diversified and sustainable growth with a commitment to safety and the environment. The pillars of the division's strategy, defined in the Strategic Plan 2012-2016, are based on increasing production and reserves, maintaining intense exploration activity, which has turned out such good results in recent years, diversifying its business geographically by increasing its presence in Organisation for Economic Cooperation and Development (OECD) countries achieving operational excellence and maximizing the profitability of its assets. To this end, investments have been made in human capital in recent years to encourage this growth, the organizational structure was redefined to reflect the strategic objectives and oriented towards improving the quality of operations, technical and commercial processes have been redesigned and standardised, and technological capacities have been developed to operate successfully in deep waters.

Geographically, the Upstream division's strategy is based on key traditional regions, located in Latin America (mainly Trinidad and Tobago, Peru, Venezuela, Bolivia, Colombia and Ecuador) and in North Africa (Algeria and Libya), as well as in strategic areas for short and medium term growth that have been consolidated in recent years. Most significant among these strategic areas are United States developments (both in the important Shenzi field and the assets of the Mississippian Lime deposits), offshore Brazil (with the Sapinhoá –formerly known as Guara–, Carioca and BM-C-33 projects) and Russia (under the agreement with the Alliance Oil company to form the joint venture AROG).

Furthermore, strategic growth in the short and medium term will also be boosted by the major projects under development in Venezuela (Carabobo and Cardón IV, which are expected to begin production in 2013 and 2014, respectively), Peru, Bolivia and Brazil and, in the longer term, with the portfolio of assets that is taking hold in Norway, Canada, West Africa, Indonesia and Alaska.

As part of its geographic diversification strategy, in 2012 the company established a presence in new countries like Namibia, Australia, Bulgaria and Aruba, which have contributed high-potential exploration assets.

In June 2012 Repsol acquired from the operator Arcadia Petroleum, Ltd. a 44% interest in the 0010 exploration license situated offshore of Namibia that includes the 1910A, 1911, and 2011A offshore blocks. The other partners in the exploration license are Arcadia (26%) and Tower/Neptune (30%). This area is considered to have a high potential given the geological similarities that might exist with the pre-salt areas of Brazil.

In August 2012, the Australian government awarded Repsol exploration license WA-480-P, after winning the tender of April 2012. The new block, with an area of 12,548 km² and a water depth between 1,000 and 4,500 meters, is located about 280 kilometers from Port Hedland in the Pilbara region (Western Australia), in the northern Carnarvon Basin, the most prolific in Australia. In the next two years there are plans to perform a campaign of 3D and 2D seismic surveys. This new exploratory license, located on the boundary of a high potential area, is in line with Repsol's strategy to grow in OECD countries, marking the entry of Repsol as an operator in a new region.

Also in August, the Bulgarian authorities awarded a consortium formed by Repsol (30%), Total (operator with 40%) and OMV (30%), the Han Asparuth exploration block in the Black Sea. It spans over an area of 14,220 km² and is located in the Western Sub-Basin of the Black Sea, at a depth between 200 and 2,000 meters underwater. With this award, Repsol added a new exploration area to its portfolio. This is a geologically complex boundary area with high prospectivity. The block is located 25 kilometers south of a major gas discovery announced in January 2012 by ExxonMobil and OMV in Romanian waters.

In December 2012, Repsol signed a production sharing contract (PSC) in Aruba for the exploration of a major part of its territorial waters. The contract area exceeds 14,000 km² and features water depths between 50 and 3,000 meters. The contract contemplates an exploration period of eight years divided into four phases. In 2013 Repsol will open an office in Aruba and will record 3,000 kilometers of 2D seismic data.

In 2012, Repsol already achieved oil or gas production from four of its ten strategic growth projects, demonstrating the degree of compliance with its commitments: the first phase in Margarita-Huacaya, the Mississippian Lime assets (United States), AROG (Russia) and Lubina and Montanazo (Spain). Furthermore, the Sapinhoá deepwater field (formerly known as Guará) in Brazil, entered its initial production phase in early January 2013. These important milestones for the company ensure compliance with the production levels set out in the Strategic Plan for the 2012-2016 period. Many of these projects come from exploration discoveries made in recent years.

During the year five discoveries were made from surveys in Sagari (Peru), Pão de Açúcar (Brazil), Tihalatine South-1 (Algeria) and Chipirón T2 and Caño Rondón Este (Colombia). These findings have led to the addition of a significant amount of contingent resources of oil, even surpassing 2012 forecasts.

In order to maintain and increase its offshore activity, in 2012 the company contracted two ultra-deepwater drilling vessels, "*Ocean Rig Mylos*" and "*Rowan Renaissance*", which will be used in future exploration campaigns. Both are state-of-the-art ships, currently being built by South Korean shipyards. The service contracts have a duration of three years and include an extension option for one or two years. With "*Ocean Rig Mylos*", the company will ensure the drilling of the appraisal wells and the development of the prolific BM-C-33 block (Brazil), which contains the significant discoveries of Pão de Açúcar, Gávea and Seat. Meanwhile, the "*Rowan Renaissance*" will be used for drilling campaigns in Namibia, Angola, the Canary Islands, Gulf of Mexico and other potential targets that may arise in the medium term. Both vessels will be available in 2013.

In all its operations, especially deepwater, Repsol implements oil industry best practices and recommendations pursuant to the highest standards, and strictly complies with all regulations.

At year-end 2012, Repsol's Upstream division was involved in oil and gas exploration and production blocks in 28 different countries, either directly or through investee companies. The company was the operator in 26 of these.

In 2012 Repsol achieved a high proven reserve replacement ratio of 204% improving even the ratios reached in 2011 (162%) and 2010 (131%), thus incorporating resources that significantly strengthen the company's future growth.

FINISHED EXPLORATION WELLS

	2012 ⁽¹⁾							
	Positive		Negative		Under evaluation		TOTAL	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	-	-	1	*	-	-	1	*
South America	4	*	4	1	1	*	9	2
Peru	1	*	1	*	-	-	2	1
Trinidad and Tobago	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-
Other countries in South America	3	*	3	*	1	*	7	1
Central America	-	-	1	*	-	-	1	*
North America	-	-	1	*	2	1	3	2
Africa	1	*	1	*	2	*	4	1
Asia	-	-	-	-	-	-	-	-
Oceania	-	-	-	-	-	-	-	-
TOTAL	5	1	8	3	5	2	18	6

	2011 ⁽¹⁾							
	Positive		Negative		Under evaluation		TOTAL	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	-	-	1	*	-	-	1	*
South America	2	*	1	*	-	-	3	*
Peru	-	-	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-
Other countries in South America	2	*	1	*	-	-	3	*
Central America	-	-	-	-	-	-	-	-
North America	-	-	1	*	-	-	1	*
Africa	1	*	4	2	-	-	5	3
Asia	-	-	1	-	-	-	1	-
Oceania	-	-	-	-	-	-	-	-
TOTAL	3	*	8	3	-	-	11	4

⁽¹⁾ A gross well is a well in which Repsol owns a working interest. The number of net wells is the sum of the fractions of interest held in gross wells.

* Less than one exploration well.

FINISHED DEVELOPMENT WELLS

	2012 ⁽¹⁾							
	Positive		Negative		Under evaluation		TOTAL	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	-	-	-	-	-	-	-	-
South America	75	16	5	1	4	1	84	18
Peru	3	*	1	*	-	-	4	*
Trinidad and Tobago	4	1	-	-	1	*	5	1
Venezuela	20	5	1	*	1	*	22	6
Other countries in South America	48	9	3	*	2	*	53	10
Central America	-	-	-	-	-	-	-	-
North America	254	26	1	*	5	*	260	26
Africa	2	*	-	-	-	-	2	*
Asia	4	3	-	-	-	-	4	3
Oceania	-	-	-	-	-	-	-	-
TOTAL	335	44	6	2	9	2	350	48

	2011 ⁽¹⁾							
	Positive		Negative		Under evaluation		TOTAL	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	-	-	-	-	-	-	-	-
South America	75	22	6	2	-	-	81	24
Peru	4	1	-	-	-	-	4	1
Trinidad and Tobago	2	*	-	-	-	-	2	*
Venezuela	15	6	1	*	-	-	16	6
Other countries in South America	54	13	5	2	-	-	59	15
Central America	-	-	-	-	-	-	-	-
North America	2	*	1	*	-	-	3	*
Africa	3	*	-	-	-	-	3	*
Asia	-	-	-	-	-	-	-	-
Oceania	-	-	-	-	-	-	-	-
TOTAL	80	23	7	3	-	-	87	25

⁽¹⁾ A gross well is a well in which Repsol owns a working interest. The number of net wells is the sum of the fractions of interest held in gross wells..

* Less than one development well.

REPSOL'S CURRENT ACTIVITY BY GEOGRAPHICAL AREA					AS OF DECEMBER 31, 2012	
	Acreage				No. of exploration wells being drilled ⁽¹⁾	
	No. of blocks ⁽³⁾		Net acreage (km ²) ⁽²⁾		Gross	Net
	Development	Exploration	Development	Exploration		
Europe	12	41	389	18,170	–	–
South America	50	27	5,685	41,301	4	*
Peru	2	5	202	19,017	–	–
Trinidad and Tobago	7	–	2,363	–	–	–
Venezuela	8	1	849	207	–	–
Other countries in South America	33	21	2,271	22,078	4	*
Central America					–	–
North America	7	474	559	9,791	–	–
Africa	5	37	2,692	107,470	1	*
Asia	14	20	1,181	22,376	–	–
Oceania		1		12,548	–	–
TOTAL	88	600	10,506	211,657	5	*

REPSOL'S CURRENT ACTIVITY BY GEOGRAPHICAL AREA					AS OF DECEMBER 31, 2011	
	Acreage				No. of exploration wells being drilled ⁽¹⁾	
	No. of blocks		Net acreage (km ²) ⁽²⁾		Gross	Net
	Development	Exploration	Development	Exploration		
Europe	11	31	348	13,648	–	–
South America	51	31	6,020	43,718	8	2
Peru	2	5	202	20,866	–	–
Trinidad and Tobago	7	–	2,363	–	–	–
Venezuela	8	1	849	207	–	–
Other countries in South America	34	25	2,606	22,645	8	2
Central America	–	1	–	2,108	–	–
North America	7	444	479	7,698	–	–
Africa	5	34	2,692	119,371	2	*
Asia	–	16	–	29,251	–	–
Oceania	–	–	–	–	–	–
TOTAL	74	557	9,539	215,792	10	2

⁽¹⁾ A gross well is a well in which Repsol owns a working interest. The number of net wells is the sum of the fractions of interest held in gross wells.

⁽²⁾ Gross acreage is the area where Repsol owns a working interest. Net acreage is the sum of the gross area in each acreage according to their respective working interests.

⁽³⁾ The number of blocks excludes unconventional Mississippian Lime assets in the United States.

Acreage

The table below displays information on Repsol's developed and undeveloped acreage, by geographical area, as of December 31, 2012:

(km ²)	2012			
	Developed ⁽¹⁾		Undeveloped ⁽²⁾	
	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾
Europe	22	17	42,024	18,543
South America	1,485	393	102,395	46,593
Peru	153	15	38,828	19,203
Trinidad and Tobago	175	64	5,404	2,299
Venezuela	709	175	2,789	882
Other countries in South America	449	139	55,374	24,209
Central America	–	–	–	–
North America	589	71	28,072	10,280
Africa	613	170	183,828	109,992
Asia	331	284	36,686	23,274
Oceania	–	–	12,548	12,548
TOTAL	3,041	935	405,553	221,228

⁽¹⁾ Developed acreage is the area assignable to productive wells. The amounts shown belong to the acreage, both in terms of exploration and development.

⁽²⁾ Undeveloped acreage covers the surface area in which no wells have been drilled, or where any wells have not been completed to the point of permitting oil and gas production in economically viable quantities, regardless of whether said area contains proven reserves.

⁽³⁾ Gross acreage is the area where Repsol owns a working interest.

⁽⁴⁾ Net acreage is the sum of the fractions of interest held in gross acreage.

Main production concessions by country

The following table provides figures on the main production and development concessions for Repsol's Upstream division by country at December 31, 2012, likewise stating the percentage that Repsol holds in each of them.

	Main blocks	% Repsol	Operated (O)/Not operated (NO)	Liquid (L)/Gas (G)
Europe				
Spain	Poseidón Norte	100.00%	O	G
Spain	Lubina	100.00%	O	L
Spain	Montanazo	72.44%	O	L
South America				
Trinidad and Tobago	West Block (BPTT)	30.00%	NO	L-G
Trinidad and Tobago	TSP (POUI)	70.00%	O	L-G
Other countries in South America				
Brazil	Albacora Leste	6.00%	NO	L-G
Brazil	BM-S-9 (Carioca)	15.00%	NO	L
Brazil	BM-S-9 (Sapinhoá)	15.00%	NO	L
Bolivia	Margarita - Huacaya	37.50%	O	L-G
Bolivia	Sábalo	24.46%	NO	L-G
Bolivia	San Alberto	24.46%	NO	L-G
Colombia	Cravo Norte	5.63%	NO	L
Ecuador	Block 16	35.00%	O	L
Ecuador	Tivacuno	35.00%	O	L
Peru	Block 56	10.00%	NO	L-G
Peru	Block 88	10.00%	NO	L-G
Peru	Block 57 (Kinteroni)	53.84%	O	L-G
Venezuela	Quiriquire (Gas)	60.00%	O	G
Venezuela	Cardón IV (Perla)	50.00%	O	G
Venezuela	Barua Motatan	40.00%	O	L
Venezuela	Quiriquire	40.00%	O	L-G
Venezuela	Mene Grande	40.00%	O	L
Venezuela	Carabobo	11.00%	O	G
Central America	–	–	–	–
North America	–	–	–	–
United States	Shenzi	28.00%	NO	L-G
United States	Mississippian Lime (original area)	16.23%	NO	L-G
United States	Mississippian Lime (extended area)	25.00%	NO	L-G
Africa				
Algeria	Tin Fouyé Tabenkor (TFT)	30.00%	O	L-G
Algeria	TFR, TIM and BEQ (Issaouane)	59.50%	O	L
Algeria	Reggane	29.25%	O	G
Libya	NC-115	20.00%	O	L
Libya	NC-186	16.00%	O	L
Asia				
Russia	SNO (AROG)	49.00%	O	L
Russia	TNO (AROG)	49.00%	O	L
Russia	SK/YK	100.00%	O	G

Average realization price for crude oil and gas by geographical region

	At DECEMBER 31, 2012		At DECEMBER 31, 2011	
	Average crude oil realization price (€/bbl)	Average gas realization price (€/boe)	Average crude oil realization price (€/bbl)	Average gas realization price (€/boe)
Europe	85.70	50.67	80.06	54.49
South America	59.1315.90	53.25	13.79	
Peru	81.9912.62	77.18	11.18	
Trinidad and Tobago	88.9013.32	77.25	13.31	
Venezuela	80.9111.40	71.58	10.14	
Other countries in South America	37.0936.83	34.40	24.63	
Central America	–	–	–	
North America	80.7829.13	76.04	47.09	
Africa	85.86	74.81	–	
Asia	50.70	–	–	
Oceania	–	–	–	
TOTAL	69.2316.24	60.51	14.23	

Note: source data in dollars converted at the accumulated average dollar/euro exchange rate for the period in question.

Results

Operating income	2012	2011	VARIATION 2012/2011
Millions of euros			
North America and Brazil	380	419	(9%)
North Africa	1,298	99	1.211%
Rest of the world	530	895	(41%)
TOTAL	2,208	1,413	56%

Operating income for the Upstream division in 2012 was €2,208 million compared to €1,413 million in the previous year, driven by increased production and realization prices, and the appreciation of the dollar against the euro. The increase in production is mainly due to the resumption of activity in Libya, the entering into production of Phase I in Margarita (Bolivia) and the positive progress of operations in the United States as a result of the development wells drilled after the lifting of the drilling moratorium and the start of production of the Mississippian Lime assets. In Trinidad and Tobago, however, production declined compared to the previous year owing to the maintenance stops made during the year.

EBITDA stood at €3,438 million compared to €2,072 million in 2011.

The average sale price of Repsol's basket liquids was \$87.35/barrel (€67.98/barrel), compared to \$83.3/barrel (€59.8/barrel) in 2011. The average gas price stood at \$3.7 per thousand cubic feet, representing an increase of 5.4% over the previous year.

The net lifting cost reached \$3.8 per barrel. This figure is similar to that for financial year 2011 (\$3.6 per barrel). The finding cost of proven reserves over the 2010-2012 period averaged \$9.02 per equivalent barrel.

Discoveries

In 2012 there were five exploratory discoveries drilled in Pão de Açúcar (Brazil), Sagari (Peru) Tihalatine South-1 (Algeria) and Chipirón T2 and Caño Rondón Este 1 (Colombia).

In first quarter 2012 Repsol Sinopec Brasil made a significant deepwater discovery in the Campos Basin. The discovery well, known as Pão de Açúcar, is located in block BM-C-33, in a water depth of 2,789 meters, at a total depth of 7,210 meters and 195 kilometers from the coast. Hydrocarbons were found in two different levels, with a total column, summing the thickness of both of 480 meters, one of the highest so far in Brazil. After the discovery, production tests were carried out that resulted in 5 kbbl/d of light oil and 28.5 Mscfd gas flow, even with the limited flow of the installed facilities. Additional work will be performed to confirm the extent of the discovery. Pão de Açúcar joins the Seat and Gávea discoveries, all in the BM-C-33 block. Gávea was included by IHS in the list of the 10 largest discoveries in the world in 2011 and Pão de Açúcar joined this list in 2012, confirming the area's high potential. The block is operated by Repsol Sinopec Brasil (35%), in partnership with Statoil (35%) and Petrobras (30%). Offshore Brazil is one of the fastest growing areas of hydrocarbon reserves in the world. If the high expectations are confirmed, this will be the first major oilfield operated by a foreign oil company in Brazil. This discovery sets a new milestone for Repsol in deepwater drilling.

In August 2012 there was a new exploration discovery in Peru of gas and condensate in Block 57, in the sub-Andean area of the country. The Sagari exploration well was successful in two different formations known as Nia Superior and Nia Inferior. Repsol is the operator of the block, with a share of 53.84%, while Petrobras holds the remaining 46.16%. The Sagari find reinforces the potential of this area of Peru, where the Kinteroni field is also located. Production tests at Sagari, conducted at depths between 2,691 and 2,813 meters, resulted in a flow of 26 Mscfd with 1,200 barrels of condensate (liquid hydrocarbons) in one of the formations and 24 Mscfd and 800 barrels per day of condensate in another. Between both tests levels of almost 11 kboe/d were obtained. Having established the high potential, Repsol is continuing with the exploration of other structures in this block.

In October 2012 an exploration well was successfully completed at Tihaltine South-1 (Algeria), located in the Sud-Est Illizi block. This exploratory gas discovery is situated in the basin of Illizi, in the southeast of the country. This discovery well is the first one drilled in the block. The consortium led by Repsol (with a 25.725% stake as operator), won the Sud-Est Illizi block in 2010, in the second round of national and international bids for exploration and development blocks. The partners in this project are Enel SpA (13.475%) and GDF Suez (9.8%). The remaining 51% is held by the Algerian state company Sonatrach. The discovery was made at a depth of 1,073 meters and the first production tests showed a gas volume of 105,000 cubic meters (3.7 million cubic feet per day). The consortium will drill four additional exploration wells as part of efforts to realize the potential of this block.

Hydrocarbon discoveries were made in Colombia with exploration wells Chipirón T2 in the Chipirón block and Caño Rondón Este 1 in the Rondón block, both located in the Llanos Basin. The Chipirón T2 well was completed with positive results in April and the Caño Rondón Este 1 was completed in June. In both blocks, Repsol has a stake of 12.5%. Ecopetrol accepted the commercial viability of both discoveries in April and August, respectively.

Production

Repsol's hydrocarbon production in 2012 was estimated at 332,434 barrels of oil equivalent per day, representing an increase of 11.3% on the figures for 2011.

The resumption of operations in Libya after the suspension from March to November 2011 explains the most significant part of this increase. Additionally the implementation of the Margarita-Huacaya gas development project in May 2012 has enabled total gas production to rise from 3 to 9 Mm³/d.

On the other hand, there has been a decline in gas production in Trinidad and Tobago owing to maintenance both of the trains at the Atlantic LNG liquefaction plant and of the production platforms, in Ecuador owing to decline in the field and the sale of a 20% stake in the service contracts of block 16 and Tivacuno in September 2012 and to a lesser degree in Brazil with the natural decline of Albacora Leste.

Net production of liquids and natural gas by geographical area:

NET PRODUCTION OF LIQUIDS AND NATURAL GAS BY GEOGRAPHICAL AREA						
	2012			2011		
	Liquids (Mbbbl)	Natural gas (bcf)	TOTAL (Mboe)	Liquids (Mbbbl)	Natural gas (bcf)	TOTAL (Mboe)
Europe	1	2	1	1	2	1
Spain	1	2	1	1	2	1
South America	24	372	90	26	370	92
Bolivia	2	45	10	2	35	8
Brazil	2	*	2	2	*	2
Colombia	1	–	1	1	–	1
Ecuador	7	–	7	9	–	9
Peru	3	39	10	3	37	10
Trinidad and Tobago	4	240	47	5	250	49
Venezuela	5	48	13	5	47	13
Central America	–	–	–	–	–	–
North America	10	5	11	10	3	10
United States	10	5	11	10	3	10
Africa	17	12	19	4	12	7
Algeria	1	12	3	1	12	3
Libya	16	–	16	3	–	3
Asia	1	–	1	–	–	–
Russia	1	–	1	–	–	–
Oceania	–	–	–	–	–	–
TOTAL NET PRODUCTION	52	391	122	40	387	109

(*) Production value between 0 and 1.

PRODUCTIVE WELLS BY GEOGRAPHICAL AREA	As of December 31, 2012 ⁽¹⁾			
	Oil		Gas	
	Gross	Net	Gross	Net
Europe	9	6	1	1
South America	1,083	338	166	61
Peru	–	–	21	2
Trinidad and Tobago	96	67	48	16
Venezuela	333	133	23	10
Other countries in South America	654	138	74	33
Central America	–	–	–	–
North America	304	33	–	–
Africa	240	48	83	25
Asia	332	163	–	–
Oceania	–	–	–	–
TOTAL	1,968	588	250	87

PRODUCTIVE WELLS BY GEOGRAPHICAL AREA	AS OF DECEMBER 31, 2011 ⁽¹⁾			
	Oil		Gas	
	Gross	Net	Gross	Net
Europe	8	6	–	–
South America	1,056	357	163	64
Peru	–	–	20	2
Trinidad and Tobago	99	69	48	16
Venezuela	319	128	22	11
Other countries in South America	638	160	73	36
Central America	–	–	–	–
North America	14	4	–	–
Africa	113	27	79	24
Asia	–	–	–	–
Oceania	–	–	–	–
TOTAL	1,191	394	242	88

⁽¹⁾ A gross well is a well in which Repsol owns a working interest. The number of net wells is the sum of the fractions of interest held in gross wells.

Reserves

At year-end 2012, Repsol's proven reserves, estimated in accordance with the US Securities and Exchange Commission (SEC) conceptual framework for the oil and gas industry, and in accordance with the criteria envisaged under the Petroleum Reserves Management System of the Society of Petroleum Engineers (PRMS-SPE), amounted to 1,294 Mboe, of which 428 Mboe (33.1%) relate to crude oil, condensate and liquefied gases, and the remaining 866 Mboe (66.9%) to natural gas.

Of the total reserves, 25.4% are located in Trinidad and Tobago, 54.4% are located in the other South American countries (Venezuela, Peru, Brazil, Ecuador, etc.), 11.8% is in North Africa (Algeria and Libya), 4.1% is in the North America (United States) and approximately 4.3% in Europe and Asia (Spain and Russian Federation).

In 2012, the development of these reserves was positive, with a total incorporation of 248 Mboe, from the Cardón IV Project in Venezuela, contributions from Sapinhoá (formerly Guará) in Brazil, the inclusion of projects in the Russian Federation and the United States and the review of development plans in Libya. In 2012, the company achieved a reserve replacement ratio (measuring total additions of proven reserves over the period relative to production for the period) of 204% for crude oil, condensate, LPG and natural gas (168% for crude oil, condensate and LPG, and 231% for natural gas).

Investments

Operating investments in the Upstream business totaled €2,423 million in 2012, 33.6% up on the same figure for financial year 2011 (€1,813 million). Investment in development accounted for 60% of the total and was carried out mainly in the United States (31%), Brazil (14%), Trinidad and Tobago (13%), Venezuela (11%), Bolivia (9%) and Peru (8%). Exploration investments represented 18% of total investment and were materialized chiefly in the United States (34%), Peru (21%) and Brazil (12%). The remainder corresponds to the incorporation of the assets in Russia (Saneco and TNO) and Mississippian Lime in the United States.

Divestments

In Ecuador, in September 2012 the sale was agreed of the Amodaimi Oil company, which owns a 20% stake in the service contracts for blocks 16 and Tivacuno, both in production, to Tiptop Energy Ltd., a subsidiary of the Chinese company Sinopec.

Activities in the main countries

North America

United States

In January 2012 a major deal that had been announced in December 2011 was ratified with the US oil firm Sand Ridge Energy, to acquire 16% and 25% of two large areas of unconventional resources in the major Mississippian Lime reservoir, located between the states of Kansas and Oklahoma. In the first half of 2012 Repsol was already incorporating production and reserves from this development in its accounts. During the year, an intensive drilling campaign was conducted yielding close to 300 producing wells, with the forecast of 700 in 2013.

The company also holds a 28% stake in the production assets of the deepwater Shenzi field in the Gulf of Mexico. In the second quarter of 2012 the Shenzi 9 appraisal well was drilled and completed, with positive results. The well began producing and was connected to the new Manifold H in late June. To maintain pressure and enhance production levels between May and September 2012 water was injected into the reservoir via two injection wells. Among the additional development tasks at the field, in 2013 new injection wells will be drilled, with an infill well on the western flank and a development well on the northeast flank. As of December 2012, thirteen wells were producing at the Shenzi platform, plus two further wells at the Marco Polo platform. To date, the reservoirs have been matching the performance levels previously modeled by Repsol.

In 2012 the parameters were defined for drilling the second appraisal well at the Buckskin discovery, which is expected to be drilled in the first half of 2013. After the positive results of the first evaluation well in 2011, this new well will confirm the great resource potential of the reservoir and define the field development plan, with a view at starting production between 2017 and 2018. Repsol, as operator of the project in its exploratory phase, made this important discovery in 2009 at a total depth of 9,000 meters, making it the deepest well operated by Repsol so far and one of the deepest drilled in the area.

In June 2012 the Bureau of Ocean Energy Management (BOEM) announced the results of the 216/222 Lease Sale in the United States. Repsol obtained five new exploration blocks in central offshore Gulf of Mexico and is the operator in three of the blocks. This was the first round since the incident at the Macondo well and after the moratorium was lifted by United States authorities.

In February 2012 drilling began at the major Alaska North Slope exploration project and signs of hydrocarbons were found that are currently under evaluation and to be confirmed with additional wells. Three additional exploration wells are planned in 2013. Repsol joined this project, located in one of the most prolific areas of Alaska, in March 2011 following an agreement reached with the companies "70 & 148, LLC" and "GMT Exploration, LLC" for the joint exploration of the area. Repsol is the operator with a 70% interest. The Alaskan North Slope is a particularly promising area, with a number of major discovered reservoirs and reduced exploratory risk. Thanks to the new project, Repsol has increased its presence in OECD countries while consolidating its strategy of balancing its exploration portfolio with low-risk assets through onshore opportunities within a stable environment.

In early 2012 the Department of Natural Resources announced the results of the preliminary NS-2001 W round of the Alaska North Slope basin, which took place on December 7, 2011. Repsol was awarded 13 new exploration blocks totaling an area of 186 km².

Also in Alaska, in November 2012 the Department of Natural Resources announced the preliminary results of the NS-2012W and BS-2012W bidding rounds. In the first round Repsol won the most blocks (24) in the North Slope basin, totaling an area of 158 km². In the second round Repsol was awarded an additional block of 13 km² in the Beaufort Sea Basin.

Repsol's diversified portfolio of projects in the United States, comprised of assets in production and exploration projects of great significance, both onshore and offshore, positions this country as one of the major strategic growth areas for the company. Repsol has a stake in 440 blocks in the United States, along with the Mississippian Lime assets.

Canada

In the first quarter of 2012 offshore blocks EL-1125 and EL-1126 were incorporated into the company's acreage, awarded by the East Canada Bid Round in November 2011. The consortium is formed by Repsol (10%), Statoil (50% and operator) and Chevron (40%). The blocks are located in the Flemish Pass Basin, off the coast of Newfoundland and the Labrador peninsula.

In February 2012 an agreement was announced with Chevron to acquire a 20% interest in block EL-1074R, located in the Orphan Basin, opposite the Canadian coasts of the province of Newfoundland and Labrador. Following this agreement, the block is held by Chevron (65% and operator), Repsol (20%) and Statoil (15%).

In November 2012 the Canada-Newfoundland & Labrador Offshore Board awarded an exploration block of 2,089 km² located in the Flemish Pass basin to a consortium made up of Repsol (25%), Husky (40% and operator) and Suncor (35%). This block is adjacent to block EL-1110 where Repsol is also engaged with Husky and Suncor.

The addition in 2012 of these new exploration blocks to join existing ones, demonstrates Repsol's commitment to create a significant portfolio of projects in the Canadian offshore area, in line with its strategy of geographical diversification and growth in OECD countries.

Latin America

Brazil

The Sapinhoá deepwater development plan (formerly known as Guará), in block BM-S-9 of the Santos basin, one of the company's key growth projects, made significant progress in 2012 as planned, which allowed production to begin at the first production well in the southern area in early January 2013. The production in the southern area of Sapinhoá (formerly Guará) is performed by the Floating Production, Storage and Offloading (FPSO) platform "*Cidade de São Paulo*" with capacity to process 120 kbb/d of oil and 5 million cubic meters of gas per day. Throughout 2013 and 2014 new wells will be connected to the platform, which is expected to reach a total crude oil production of 120 kbb/d in the first half of 2014. The partners in this important project are Petrobras (45% and operator), BG (30%) and Repsol Sinopec Brasil (25%). In 2012 the Sapinhoá ADR2 development well and I6S injection well were drilled and the corresponding tests were performed. Furthermore, the Sapinhoá North well was completed in order to start an extended well test (EWT) in early 2013. Within the development plan, the Sapinhoá P3S appraisal well was drilled and work commenced on the Sapinhoá P4S and Sapinhoá P5S wells. The development plan also contemplated carrying out EWT at Sapinhoá North in the first half of 2013, the completion of the 18" Guara-Tupi pipeline installation and the conclusion of the Sapinhoá South appraisal work. In 2012 a contract was awarded for the lease of FPSO "*Cidade de Ilhabela*" for a period of 20 years. This platform, with a daily production capacity of 150 kbb/d of oil and 6 million cubic meters of gas, will be used for the production of the Sapinhoá North field which is expected to be launched in the second half of 2014.

Within the evaluation and development plan for the Carioca project, also in the prolific BM-S-9 block, in 2012 the Carioca North an advanced well was drilled to define the potential and extent of the Carioca area with greater precision, once the Carioca Sela appraisal well was completed. The positive results obtained in the fourth quarter with the Carioca North well confirm the extension of the Carioca field. To determine the flow capacity of the well production tests will be performed in 2013 and new evaluation work will be undertaken to define the full potential of the Carioca area. To achieve this, the Brazilian National Petroleum Agency (ANP) approved an additional program of activities and extended the deadline for declaring commercial viability until December 31, 2013. The development and production project in the Carioca area is progressing as established and the target to start production in 2016 remains unchanged.

After the exploration discovery made in 2012 with Pão de Açúcar well, Repsol confirmed the great potential of block BM-C-33, in the Brazilian pre-salt. The partners, Repsol Sinopec Brasil (35% and operator), Statoil (35%) and Petrobras (30%), are working on the definition of future evaluation and development plan for the area. This block contains the Seat (2010), Gávea (2011) and Pão de Açúcar (2012) discoveries. The latter, located in a water depth of 2,789 meters and 195 kilometers from the coast, has an oil column of 480 meters and, according to the company IHS, was one of the most significant discoveries in the world in 2012.

During the year Repsol took part in the appraisal and development plan for the Piracucá field (block BM-S-7) with the analysis of the most suitable options. As operator, Petrobras is contemplating developing Piracucá together with other discoveries in the same area (Panoramix, Vampira and Guaiamá) by studying the feasibility of jointly developing the fields, thus allowing synergies that would improve the returns in all these projects. The development wells drilled to date at Piracucá have contributed to better defining the south-west area of the field, leaving the definition of the north-east area, where a

development well is planned for 2014. The basic parameters of the field development plan are expected to be defined in 2013.

The evaluation plan of the Panoramix discovery, located in block BM-S-48 (S-M-674), is progressing according to the proposal submitted in August 2011 to the ANP, including the drilling of an appraisal well with a contingent DST production test and the possibility of a second well.

All the promising results in Brazil since 2011 were obtained by virtue of the alliance signed in 2010 between Repsol (60%) and the Chinese company Sinopec (40%), which led to the creation of Repsol Sinopec Brasil, one of the leading private energy companies operating in Latin America. Repsol Sinopec Brasil is one of the leading independent energy companies in exploration and production in Brazil, it occupies a strategic position in the areas of greatest potential and of the Brazilian pre-salt and leads the exploration activity in the prolific Santos basin, together with Petrobras and BG. The company boasts a significant and well-diversified portfolio of assets within the country, which includes a field already in production (Albacora Leste) and major discoveries over recent years in blocks BM-S-9 and BM-C-33, along with the Piracucá field, located within the BM-S-7 block and currently under development, and Panoramix, in the BM-S-48 (S-M-674) block.

The important exploration discoveries made in recent years, coupled with the development projects that are currently materializing and the agreement reached with Sinopec, all bolster the company's strategy in offshore Brazil, one of the areas offering the greatest growth in oil and gas reserves worldwide, and represent one of the key growth projects for the Upstream division.

Bolivia

In early May 2012 the gas processing plant was opened and the first phase of the major Margarita-Huacaya gas development project went into production. The commissioning of the plant, along with the fluids collection system, gas pipelines and the completion of wells, allowed total gas production to be increased from 3 to 9 Mm³/d. Margarita-Huacaya, one of the major projects in Repsol's Strategic Plan began to contribute a large volume of production in 2012. The first phase was completed on schedule and below the approved budget. The second phase is currently underway with the construction of a new module in the treatment plant and the drilling of additional production wells. This second phase is expected to enter operation in fourth quarter 2013 and by the second half of 2014 total gas production will amount to 14 Mm³/d. The start of the first phase at Margarita-Huacaya implies new production in the first key development project of the Strategic Plan and is an important step that demonstrates Repsol's ability to fulfill its commitment to Upstream growth and to safety-related matters.

In February 2012 the third gas train entered into service at the Sábalo field, increasing processing capacity from 13.4 to 22.1 Mm³/d. Between 65% and 70% of the production of this field is intended to cover the Gas Supply Agreement (GSA) with Brazil, with a seasonal demand in excess of 30 Mm³/d, particularly in winter. The Sábalo field is operated by Petrobras (35%), in partnership with Total (15%), and YPFB Andina (50%), a company owned by Repsol with a 48.92% stake.

In May 2012 YPFB and Repsol signed two new survey agreements for the exploration of areas Carahuaicho 8C, covering 975 km² and located in the department of Santa Cruz, and Casira, covering 1,950 km² and located in the department of Potosí. Repsol is evaluating the potential of these areas and, depending on the results, it will have the option of signing a service contract for exploring and developing them.

As part of the exploratory round 2012, in December the state-owned Bolivian company YPFB announced, through an administrative resolution, the award to YPFB-Andina, Petrobras and BG Bolivia of 10 areas of study which will be developed to assess their potential.

Peru

Throughout the first quarter of 2013 production will start at Kinteroni, another of the company's key projects. The development plan for the Kinteroni South field, launched in mid-2010, includes the drilling, completion, and testing of production wells and the construction of surface facilities and pipeline system to the Malvinas plant. The Kinteroni field is in Block 57, located in central-eastern Peru, east of the Andes, in the Ucayali-Madre de Dios basin. Kinteroni was discovered in January 2008 and was one of the greatest discoveries in the world that year. The partners in the block are Repsol (53.84% and operator) and Petrobras (46.16%).

In 2012 a second major exploration discovery was made in block 57 with the Sagari exploration well, which was positive in two formations. This important finding significantly increases the potential of the block, which also includes the Kinteroni field.

In 2012 Ecopetrol and Repsol Exploración agreed to the sale of 30% of lot 109, which was held 100% by Repsol. This block, which is located in Santiago and Huallaga basins, is in its third exploration period. The transaction is pending official approval.

In 2012 the supply of natural gas from the Camisea field, where Repsol has a 10% interest, continued normally to the Peru LNG liquefaction plant where the company in turn has a 20% stake. The Camisea field comprises blocks 56 and 88, where production is intended for the local market and to supply the Peru LNG liquefaction plant. In April 2012 the Directorate General of Energy Environmental Affairs of the Peruvian Ministry of Energy and Mines approved the environmental impact study to explore and develop the area of San Martín Este in block 88 of the Camisea field. This block is under production at the Cashiriari and San Martín fields.

Venezuela

In August 2012 the Venezuelan authorities approved the declaration of commercial viability and the Development Plan for the Perla field, located in the Cardón IV block, Gulf of Venezuela. Following this declaration, the main partner, Petróleos de Venezuela (PDVSA), in accordance with the terms of the gas license, has the right to participate with 35% in the development of the project, in which Repsol and Eni will hold the remaining 65% in equal parts. The development plan of this key project contemplates three phases depending on the volumes of non-associated natural gas to be produced: the first for 300 Mscfd and a planned production start in 2014, a second phase of 800 Mscfd, and a third of 1,200 Mscfd. The development will involve a series of tasks to be performed simultaneously, both on land and at sea, most notably the re-entry of wells drilled in the exploration phase and the drilling of new wells, the construction and installation of offshore platforms, the laying of production pipelines, the construction of the onshore gas processing and treatment plant and the pipeline from the gas treatment plant to the point of delivery to PDVSA Gas. The gas license includes a number of social contributions to the community, as established by the Ministry of Energy and Mining, and as a contribution to the development of communities in the area. In 2012 orders were placed for the purchase of long lead items (LLI) and pipes were delivered in the Cardón area for the construction of the flow line to the platforms that will connect them to the future onshore treatment plant. Work also began on the detailed engineering for the onshore processing plant and progress was made in the process of awarding the rig contract which is expected to start working in the fourth quarter 2013.

The Perla mega-field was discovered by Repsol and Eni in 2009 within the larger Cardón IV block, which is located in shallow waters of the Gulf of Venezuela, roughly 50 kilometers from the coast. A total of five wells have been drilled which will be put into production using platforms and subsea connections that will take the gas to shore for processing and sending to the Venezuelan distribution network, in accordance with the development plan.

In the other key growth project in Venezuela, the Carabobo heavy crude oil project, progress was made in 2012 in the development work aimed at initiating accelerated production in 2013 and early production for the project around 2014. The permanent production facilities, currently in the process of selecting the engineering team that will perform the FEED (Front End Engineering Design), is scheduled to be operational in 2016, reaching the expected production plateau of 400,000 barrels of oil in 2017 with the commissioning of the oil upgrader. This upgrader, with a processing capacity of 200 kbb/d, will increase the quality of the crude to 32° API. In 2012 the first phase of the 3D seismic campaign was performed throughout the block and drilling was completed in seven stratigraphic wells. The conceptual engineering for the accelerated production project was also completed, with approval for building a processing plant with a capacity of 30 kbb/d and completion of the conceptual engineering of the permanent facilities. In late December 2012 the start of production was announced at the first well scheduled under the accelerated development plan in the Carabobo field.

The Venezuelan government awarded the Carabobo project to a consortium of international companies headed by Repsol, which holds an 11% stake, in February 2010. This important project, undertaken jointly with PDVSA, consists of the development of the heavy crude oil reserves in the Carabobo 1 Norte and Carabobo 1 Centro areas located in the Orinoco Petroleum Belt. This region holds some of the largest undeveloped hydrocarbon reserves in the world. Production will reach 400,000 barrels of oil per day over 40 years. Part of

the heavy crude oil obtained from the project will be sent to Repsol's Spanish refineries, which will allow the company to profit from its investment in advanced deep conversion techniques at the refineries.

Trinidad and Tobago

Repsol holds a 30% stake in the company BPTT, which operates a large productive oil and gas area in the country's offshore zone. Production at these various fields will be sent to the liquefaction trains at the Atlantic LNG plant, in which Repsol also owns an interest.

In late 2012 BPTT announced a gas discovery with the Savonette 4 appraisal well initially allowing the estimates of the Savonette gas field resources to be duplicated. This appraisal well, in production since November 2012, was drilled to the east of the field, at a depth of 90 meters in the Columbus Basin 80 kilometers off the east coast of Trinidad. The total depth of the well was 5,700 meters. Savonette was discovered in 2004 during the exploratory drilling at Chachalaca and went into production in 2009.

Repsol is the operator of the TSP offshore producing blocks, holding a 70% interest. In 2012 the processing tasks were completed for the 3D seismic registers of the previous year. The goal is to complete the seismic coverage for the area and evaluate the exploration potential remaining in the asset. During the year other new drillable prospects were also identified.

Other countries in Latin America

In Colombia, in third quarter 2012, the partnership between Repsol and Ecopetrol, with a 50% interest each, was awarded a new deepwater hydrocarbons exploration block. The block, called Guajira Offshore 1, has an area of 12,271 km² and is located at depths between 1,500 and 3,000 meters. The block is subject to a technical evaluation agreement with a term of 36 months.

Also in Colombia, in 2012 the company achieved two new exploration successes; one in the Chipirón block with exploration well Chipirón T2 and the other in the Rondón block with the Caño Rondón Este 1 exploration well, both located in the Llanos Basin.

In Mexico, Repsol operates the Reynosa-Monterrey block through a multi-service contract. At year-end 2012 there were 46 producing wells. This production is not reflected in Repsol's accounts since it belongs to Pemex. In 2013 additional development and infrastructure work was performed and repairs are scheduled for about 20 wells to increase production in the area. In 2014 maintenance services and works will be carried out.

In Guyana, in July 2012 exploratory drilling was stopped at the Jaguar-1X well when much higher pressure conditions than expected were encountered at depths of almost 5,000 meters. We obtained samples of light crude oil with a high content in gas at two intervals, which confirms the hydrocarbon-generating potential of the area. Using the information obtained, work is currently underway on the engineering design of a new well to overcome the pressure and temperature conditions found and achieve the promising targets.

In Ecuador, in September 2012 the sale was agreed of the Amodaimi Oil company, which owns a 20% stake in the service contracts for blocks 16 and Tivacuno, both in production, to Tiptop Energy Ltd., a subsidiary of the Chinese company Sinopec. The share transfer was performed after the approval of the Ecuadorean State received in August. Following this transaction, Repsol, which acquired this 20% stake in 2009 from Murphy Oil, returns to its former interest of 35% in blocks 16 and Tivacuno. The consortium continues with Repsol as the operator, in partnership with OPIC (31%), Tiptop Energy (20%) and Sinochem (14%).

In Cuba, following the negative results of the Jagüey exploration well completed in the first half of 2012, Repsol proceeded, after fulfilling the requirements set by the authorities, to cancel the contract for exploration in the area, and therefore as of December 31, 2012 Repsol no longer had any exploration or production interests in Cuban blocks.

Africa

Repsol's significant presence in North Africa is mainly concentrated in Algeria and Libya, countries where it holds interests in major projects that will ensure sustained and profitable growth over the coming years. The company is also consolidating its presence in West Africa, in particular Angola, Sierra Leone and Liberia.

Libya

Following the resolution of the conflict in October 2011 production was restarted in blocks NC-115 and NC-186. Throughout 2012 production reached levels similar to those before the conflict, with an annual average around 300,000 barrels per day and peak production over 330,000 barrels per day in total for both blocks.

On March 8, the company informed the state-owned NOC Libya company that the Force Majeure situation declared in 2011 had ended, leading to the resumption of exploration activities in blocks NC-115 and NC-186. The Libyan authorities approved the request to extend the concession for the suspension period, extending it until August 6, 2014. In 2012 a drilling unit was found to perform the exploratory drilling commitments and the 3D seismic survey was reactivated with the previously selected contractor.

Algeria

Currently, Repsol has interests in the operation of two production projects (Issaouane and Tin-Fouye Tabankort), a major gas development project (Reggane Nord) and one exploration project (SE Illizi).

In November 2011 the Algerian authorities approved the commissioning of the North Reganne development project and in 2012 preparations began for the first development wells. This important gas project in the Algerian Sahara includes the development of six fields (Reggane, Kahlouche, South Kahlouche, Sali, Tiouliline and Southeast Azrafil) that are located in the Reggane Basin about 1,500 kilometers southwest of Algiers. Production is expected to begin in 2016. The development of the area includes the drilling and completion of 104 wells and the construction of a gas treatment plant with a capacity of 8 million cubic meters per day, a gas storage system, a pipeline for export and infrastructure works consisting of an airstrip and an electrical system. Repsol has 29.25% stake in the consortium that will develop the project, in partnership and jointly operated with the Algerian State-owned company Sonatrach (40%), Germany's RWE Dea AG (19.5%), and Edison of Italy (11.25%). Reggane is one of the key exploration and production projects included in Repsol's Strategic Plan.

As operator of the Sud-Est Illizi exploratory block, Repsol discovered gas in the third quarter 2012 with exploration well Tihalatine South-1, the first to be drilled in the block. The company holds a 25.725% interest and its partners are Enel SpA (13.475%), GDF Suez (9.8%) and Sonatrach (51%).

Angola

In January 2012 the company incorporated exploration blocks 22, 35 and 37 to its acreage. The signing of these contracts with Sonangol took place on December 20, 2011. Repsol is the operator of block 22 where it has 30% stake, and has a 25% interest in block 35 (operated by Eni) and 20% of Block 37 (operated by ConocoPhillips). In 2012 the 3D seismic surveying commitments were completed in all three blocks.

Sierra Leone

In 2012 the Jupiter-1 discovery well was drilled offshore Sierra Leone with good results that are currently being evaluated. The consortium, made up by Repsol (25%), Anadarko (55% and operator) and Tullow (20%), drilled this well in block SL-07B-10, at a depth of 6,465 meters in 2,200 meters of water, in the same area as the Mercury-1 exploration well completed in 2010. The well found an oil column of 30 meters, which seems to reinforce the high hydrocarbon potential of a region that, until now, has been largely unexplored.

Liberia

In June 2012 it was decided to move to the next phase of exploration in Block LB-15 where Repsol has a 27.5% interest. The Montserrado-1 discovery well completed its obligations for the year in this block.

In July 2012 the next phase of exploration began in block LB-10, where Repsol has a 10% stake. The results are being analyzed to prioritize the objectives, in addition to estimating the potential resources and the geological risks.

Tunisia

In recent years several exploration opportunities have been evaluated in North Africa. Three offshore blocks were acquired in Tunisia in 2011 in which Repsol is the operator with 100% interest. 6,768 kilometers of existing 2D seismic data was reprocessed in 2012 to expand knowledge about the area.

Asia

Russia

In August 2012, Repsol and Alliance Oil completed the first phase of their common project for the exploration and production of hydrocarbons with the incorporation of assets to the AROG joint venture by Alliance Oil and the purchase of shares by Repsol. This project was approved in an agreement signed in December 2011. AROG will serve as a growth platform for both companies in the Russian Federation, the largest oil and gas producer in the world. In August 2012 Alliance Oil contributed its subsidiary Saneco, which encompasses exploration and production activities in the Samara region (Volga-Urals Basin), with proven and probable reserves in 11 oil fields that are already in production. Meanwhile, Repsol acquired shares in the new company and signed up to a 49% stake in it. In third quarter 2012 Repsol incorporated production and reserves from this important project into its books. In December 2012 Alliance also incorporated the assets of its subsidiary Tatnefteodatcha (TNO) to the AROG venture, located in the Russian region of Tatarstan (Volga-Urals Basin) and consisting of two oil fields with their respective exploration and production licenses. For its part, in late January 2013 Repsol contributed to AROG with the company's assets in Eurotek, including two major gas fields: Syskonsyninskoye (SK), which is expected to enter production in the first half of 2013 and Yuzhno-Khadyryakhinskoye (YK) which is in the final evaluation phase before entering development. With all this in late January 2013 was completed the formation of the joint venture AROG between Alliance Oil (51%) and Repsol (49%).

This agreement combines Alliance Oil's knowledge and access to exploration and production opportunities in Russia with the financial and technical ability of Repsol, thus forging a long-term alliance for exploration and production activities. The agreement also includes the joint search of new expansion opportunities by acquiring oil and gas assets in Russia.

In 2012 Eurotek-Yugra (100% Repsol) was awarded three exploration licenses: Karabashkiy-78, Karabashkiy-79 and Kileyskiy for a period of five years. These licenses are located in Western Siberia-Khanty-Mansiysk (Yugra), Okrug region, in the Ural-Frolov basin.

In October 2012 confirmation was received awarding block Salymsky 6, which was part of the June-July 2012 bidding round, raising the number of exploration areas controlled 100% by Repsol in Russia to 11.

Progress was also made in the preparation of two exploration wells in the Karabashki 1 and 2 blocks in order to begin drilling in January 2013.

Indonesia

In 2012 the Cendrawasih Bay II seismic surveying commitment was completed with the acquisition of 2,691 kilometers, the first task by Repsol as operator in this block. The survey was completed without incidents, on time and within budget, despite the difficulties of such a sensitive and remote area - located about 3,000 kilometers from Jakarta. The full interpretation results of this data are expected for first quarter 2013.

Also in 2012 an offshore sample acquisition campaign was also performed in East Bula and Seram, together with an aerial gravimetry and magnetism survey for a better understanding of these blocks.

Iraq

At the Piramagrun and Qala Dze exploration blocks awarded in 2011 in the eastern region of Kurdistan, a 2D seismic survey began in second quarter 2012 and inspections were completed prior to measuring the gravimetry. Work also continued on the field geology operations started in 2011. The final geological data is currently being processed. All these tasks serve to evaluate the hydrocarbon potential of the area.

Europe

Norway

In recent years Repsol has been consolidating a significant portfolio of projects in the Scandinavian country, in line with its strategy of geographic diversification and increased presence in OECD countries. In December 2012 Repsol participated in 14 exploration licenses in Norwegian waters, acting as the operator in three of them (PL-541, PL-531 and PL-642).

The PL-531 license, obtained by acquiring a 20% stake in the operator Marathon in January 2011 and operated by Repsol, has seen the commencement of preparatory work before the drilling of the Darwin exploration well, expected for first quarter 2013. This will be the first exploration well operated by Repsol in Norway, more specifically in the Barents Sea.

Under the PL-529 license, obtained by purchasing a 10% interest from the operator Eni in January 2011 and located in deepwater southwest Barents Sea, a pilot well was drilled in August 2012 in preparation for the Bønna exploration well, planned for third quarter 2013.

Under license PL-356 operated by DetNorske (60%) and in which Repsol has a 40% interest, in third quarter 2012 the Ulvetanna exploratory survey was completed with negative results.

In January 2013 the Norwegian authorities awarded Repsol the PL 692 License in the Awards in Predefined Areas (APA) bidding round. This area in the Norwegian Sea consists of blocks 6509/3, 6510/1 and 6510/2. Repsol will be the operating company with a 40% stake, in partnership with Edison (30%) and Skagen44 AS (30%).

Ireland

During 2012 we worked on the preparation of the first Dunquin exploration well of the FEL 3/04, license, where Repsol has a 25% interest. Exploratory drilling is scheduled for 2013.

In March 2012, the company Providence transferred the operation of exploration license LO 11/11, located in the Goban Spur Basin, to Repsol. This license was granted in 2011 in the "Atlantic Margin Round" and stakes in the block are as follows: Repsol (40% and operator), Providence (40%) and Sosina (20%).

Portugal

In September 2012 the asset swap agreement was formalized with the company Partex. Through this agreement, Repsol exchanged its 10% interest in the Algarve blocks (Lagosta and Lagostim), where it reduced its stake to 90%, for a 15% interest in the Peniche blocks (Camarao, Mexilhao, Almeijoa and Ostra). These latter blocks include Petrobras (operator, 50%), Galp (30%), Repsol (15%) and Partex (5%).

In the Lagosta and Lagostim blocks a total of 1,506 km² of 3D seismic data was acquired for processing. In 2013 seismic interpretation will take place along with the identification of prospects, with the initial objective of drilling an exploratory well in 2014.

Spain

After obtaining all the necessary official permits, in October 2012 the Lubina and Montanazo fields, located in the Spanish Mediterranean, entered production. Both fields were discovered by Repsol in 2009 and have been connected to the Casablanca platform for operation. Repsol is the operator in both cases, with a stake of 72.44% in Montanazo and 100% in Lubina.

In 2012 Repsol continued its preparatory work for the future exploration wells in the Canary 1 to 9 blocks, including detailed processing of existing 3D seismic data for the study area, along with the preparation of an implementation report and baseline study, in accordance with the environmental impact study.

Liquefied Natural Gas (LNG)

LNG activities include the liquefaction, transportation, marketing, and regasification of liquefied natural gas, in addition to electricity generation activities in Spain at the BBE plant (Bahía de Bizkaia Electricidad) and natural gas marketing in North America.

Following the Fukushima accident in March 2011 and the subsequent nuclear crisis, there has been increased demand for LNG in the Pacific basin. This brought about a steady increase in prices in the Far East, which second quarter 2012 reached figures of up to 17 and 18 dollars per million Btu, and caused a significant de-coupling with European pricing points [NBP (National Balancing Point) at around 9 dollars per million Btu], and even more so with the Henry Hub, which remained unchanged at around 3 dollars per million Btu.

The market was also characterized by low fleet availability, coupled with high spot fleet prices stemming from the longer travel times caused by the rerouting of large amounts of LNG from the Atlantic basin to the Pacific on account of the price de-coupling and the slumping demand throughout Europe.

In Spain, the most noteworthy event was the decline in gas consumption by 2.8% against the previous year and the consequent decline in imports of LNG. The main factors affecting this market were economic activity, weather conditions and competition from other energy sources.

As for the power generation market, the arithmetic mean of the Spanish electrical pool was €47.26 per MWh in 2012, representing a decrease of 5% compared to 2011. The gross electricity demand in the Iberian Peninsula during 2012 was 252.19 GWh, 1.2% less than the previous year. Most of the technologies reported production declines compared to 2011, including hydroelectric which fell by 4%, or combined cycle with a 5% drop. Meanwhile coal plants increased their production by 5% compared to 2011. Solar generation remained at similar levels to 2011, representing 1% for solar photovoltaic and 3% for solar thermal. It should be noted that in September 2012 the Spanish government launched a bill that includes a tax on electricity production and the fuel consumed for generating it. This impact will be noticeable as the year progresses, since the law only came into force in January.

Results

Operating income from Liquid Natural Gas (LNG) operations totaled €535 million in 2012, in comparison to the €386 million at December 31, 2011, owing chiefly to greater LNG margins over the year.

Assets and projects

2012 marked the second full year of operation of the Peru LNG liquefaction plant, located in Pampa Melchorita, which went into production in June 2010, and where Repsol holds a 20% interest with Hunt Oil (50%), SK Energy (20%) and Marubeni (10%). The Camisea consortium, in which Repsol also has a 10% stake, supplies natural gas to the plant.

The facility, with a nominal capacity of 4.4 million tons per year, processes 17 million cubic meters of gas per day. It boasts the two largest storage tanks in Peru (each with a capacity of 130,000 cubic meters) and a sea terminal over one kilometer long to receive ships with capacities ranging from 90,000 to 173,000 cubic meters.

Additionally, the project envisages that Repsol will be the exclusive marketer of the liquefaction plant's entire production. The gas purchase agreement entered into with Peru LNG will run for 18 years from the start of commercial operations and is, in terms of volume, the largest LNG acquisition ever made by Repsol.

In September 2007, Repsol was awarded a contract under an international tender organized by the Federal Electricity Commission (CFE) for the supply of LNG to the natural gas terminal in the port of Manzanillo on Mexico's Pacific coast. The contract envisages the supply of over 67 bcm of LNG to the Mexican plant over a fifteen-year period. The Manzanillo plant, which will supply gas to the CFE power plants in mid-west Mexico, will receive gas from the Peru LNG plant. Although start-up was scheduled for the second half of 2011, it finally entered into service in 2012.

The Peru LNG plant produced 5.2 bcm (3.8 million tons/year) in 2012, in line with 2011 despite a major scheduled maintenance shutdown.

In June 2009 the Canaport LNG regasification plant started producing, owned by Repsol (75%) and Irving Oil (25%). It is the first LNG regasification plant on the east coast of Canada. Located in Saint John (New Brunswick) and with an initial send-out capacity of 10 bcm/year (1 billion cubic feet per day), the Canaport terminal is one of the largest in North America and supplies markets on the eastern coast of Canada and the north-eastern United States. Repsol, the plant operator, supplies the LNG that fuels the terminal and is entitled to the entire regasification capacity. The third tank, which started operations in April 2010, is able to receive loads from the largest LNG carriers in the world.

A multi-year LNG supply agreement was signed in 2010 with Qatargas for the Canaport LNG plant. The LNG is supplied using Q-Flex and Q-Max carriers, the largest in the world with capacities of 210,000 and 260,000 cubic meters, respectively, making Canaport LNG one of the few plants worldwide capable of receiving these ships at its terminal. This agreement bolsters Repsol's status as a reliable, diversified and flexible natural gas provider for the Canadian and north-eastern American markets.

Noteworthy events for 2012 included the reduced availability of LNG and the increased activity of natural gas trading, which doubled compared to 2011, and the start of a project to enable the plant to adapt to gas market needs that will be completed in 2013. Growth in natural gas marketing activities in North America is also expected to continue.

Repsol is involved in the Trinidad and Tobago integrated LNG project, in which it holds an interest alongside BP, BG and others in the Atlantic LNG liquefaction plant. The plant's strategic geographic position allows it to competitively supply the Atlantic Basin markets (Europe, United States and Caribbean) and, in the future, the Asian market through the expansion of the Panama Canal, scheduled to open in 2014.

This plant has four liquefaction trains with a combined capacity of 15 million tons per year. Repsol holds 20% stake in train 1, 25% in trains 2 and 3, and 22.22% in train 4. This last train is one of the largest in the world, with a production capacity of 5 million tons/year. In addition to its interests in the liquefaction trains, Repsol plays a leading role in the supply of gas and is one of the main purchasers of LNG.

In Spain, Repsol holds a 25% interest in Bahía de Bizkaia Electricidad (BBE). This company owns a combined cycle power plant with 800 MWe of installed capacity. Power generated at the plant is fed to the grid for residential, commercial, and industrial consumption. This facility, which is located in the port of Bilbao, recovered high availability levels in 2012 after being affected by the repair and subsequent replacement of a turbine casing in 2011, despite which it continued to sell surplus gas without harming the company financially.

In December 2007, Repsol and Gas Natural SDG signed a shareholders' agreement with Sonangol Gas Natural (Sonagas) with the aim of starting work on developing an integrated gas project in Angola. This initiative involves the appraisal of gas reserves to determine the investments that would be required for their development and export in the form of liquefied natural gas. In accordance with the timetable, Repsol and Gas Natural SDG, acting through the company Gas Natural West Africa (GNWA), have taken part in the exploration activities currently being undertaken by Sonagas, the operator of the consortium, in which GNWA holds a 20% interest, followed by Sonagas (40%), Eni (20%), Galp (10%), and Exem (10%).

Moreover, drilling on the Garoupa-2 and Garoupa North wells was completed in 2011. The wells are currently under appraisal and the ongoing work will eventually verify the consortium's projected gas resources for the field. Currently, seismic-related work is still continuing.

LNG transport and marketing

The Repsol-Gas Natural LNG (Stream) 50-50% joint venture is one of the leading LNG marketing and transport companies in the world and one of the most important operators in the Atlantic basin. One of this company's objectives is to optimize the management, in the short and medium term, of both partners' fleets, which include 15 gas tankers and a variety of other vessels.

In 2012, Repsol, with management support from Stream, marketed 10.2 bcm of LNG, down 7% on the same figure for 2011. Most of the gas emanated from Peru LNG, which was started up in June 2010, and from Trinidad and Tobago. The main destinations for the cargo were Spain, the Asian market and Canaport LNG, with sales materializing in both the Atlantic (Europe and America) and the Pacific basins.

In terms of gas ships, at year-end 2012 Repsol owned seven LNG carriers and a further two jointly owned (50%) with Gas Natural Fenosa, all of them under time charter agreements and with a total capacity of 1,248,630 cubic meters. Four of these methane tankers were added during 2010, linked to the start-up of the Peru LNG project, one from Naviera Elcano and three more from Knutsen OAS.

Additionally, Repsol has entered into short to medium term gas carrier leases, depending on the market and fleet management conditions.

Investments

The LNG business area invested €35 million in 2012, compared to €18 million for 2011. This amount was used mainly for maintenance and development projects.

Sale of LNG businesses

On February 26, 2013 Repsol signed an agreement with Shell for the sale of its LNG assets and businesses (excluding the LNG businesses in North America and the Angola project). This operation has no effect on the Consolidated Financial Statements for the year 2012. See Note 38, "Subsequent Events" of the Consolidated Financial Statements for the year 2012.

Downstream

The Repsol Group Downstream business embraces the supply and trading of crude and other products, oil refining, marketing of oil products and LPG, and the production and marketing of chemicals.

Results

Operating income	2012	2011	VARIATION 2012/2011
Millions of euros			
Europe	723	1,012	(29%)
Rest of the world	290	170	71%
TOTAL	1,013	1,182	(14%)

Operating income in the Downstream division amounted to €1,013 million, as opposed to the €1,182 million in the previous year. 2012 was marked by the launch of the expansion of the Cartagena and Bilbao refineries, allowing improvements in refining margins by increasing and optimizing production. However, results have fallen over the previous year due to the impact on inventories of evolving prices of crude oil and oil products, lower sales volumes in commercial divisions as a result of the economic crisis and the fall in margins and sales volumes in the chemical division owing to the worse international environment.

Refining

The Repsol Group owns and operates five refineries in Spain (Cartagena, A Coruña, Petronor, Puertollano and Tarragona), with a combined distillation capacity of 896,000 barrels of oil per day (including, in the case of the Tarragona refinery, the share in Asfaltos Españoles S.A.). Installed capacity at La Pampilla refinery (Peru), in which Repsol holds a 51.03% stake and is the operator, is 102,000 barrels of oil per day.

Refining activity and context

The year was marked, as in previous years, by the effects of the international economic crisis. Demand for petroleum products declined in the OECD countries, affecting the refining business, especially in Europe, where refining margins remained low. 2012 witnessed the closure of yet more refineries and this restructuring within the sector is expected to continue over the coming years across both Europe and the United States, with the closure of less advanced and less competitive refineries. These closures will allow offer to adjust to demand and will foreseeably allow margins to rally, especially at refineries geared towards producing medium distillates and with capacity to process heavy crude oil products. In any case, according to the findings of the International Energy Agency, this increase in demand will largely materialize in emerging countries, headed by China and India.

The refining margin in Spain stood at 5.3 dollars per barrel in 2012, slightly down on the same figure for 2011 (1.6 dollars per barrel). In Peru, the annual refining margin came in at 3.9 dollars per barrel, in comparison to the 1.8 dollars per barrel seen in 2011.

The following table shows the refining capacity of the plants in which Repsol had an interest at December 31, 2012:

	Primary distillation	Conversion index ⁽²⁾	Lubricants
REFINING CAPACITY ⁽¹⁾	(thousand barrels per day)	(%)	(thousand tons per year)
Spain			
Cartagena	220	76	155
A Coruña	120	66	–
Puertollano	150	66	110
Tarragona	186	44	–
Bilbao	220	63	–
TOTAL REPSOL (SPAIN)	896	63	265
Peru			
La Pampilla	102	24	–
TOTAL REPSOL	998	59	265

⁽¹⁾ Information submitted in accordance with the Repsol Group's consolidation criteria: all the refineries cited are integrated globally in the Group's financial statements. The reported capacity in Tarragona includes the shareholding in ASESA.

⁽²⁾ Defined as the ratio between the equivalent capacity coefficient of Fluid Catalytic Cracking (FCC) and primary distillation capacity.

In this context, the Repsol refineries managed by the Downstream division processed 37 million tons of crude oil, representing an increase of 17.4% compared to 2011, due in part to increased capacity at the Cartagena refinery. The average use refining capacity was 74% in Spain, higher than the 71% recorded in the preceding year. In Peru, refinery use was also up on 2011, rising from 69% to 70% in 2012.

The table below provides a breakdown of refinery production, by main products:

PRODUCTION	2012	2011
Thousands of tons		
Refinery intake ⁽¹⁾		
Crude	36,960	31,483
Other refinery intake	8,213	9,053
TOTAL	45,173	40,536
Refining production		
Intermediate distillates	21,863	17,835
Gasoline	7,165	8,145
Fuel oil	4,474	6,287
LPG	961	1,056
Asphalts ⁽²⁾	970	1,272
Lubricants	184	242
Other (except petrochemicals)	5,827	2,858
TOTAL	41,444	37,695

⁽¹⁾ Information submitted in accordance with the Repsol Group's consolidation criteria: all the refineries cited are integrated globally in the Group's financial statements.

⁽²⁾ Includes 50% of the Asfaltos Españoles S.A. (ASESA) asphalt production, in which Repsol and Cepsa own 50% shares. Repsol markets 50% of ASESA's products.

The following table shows the origin of the crude oil processed at the Group's refineries, as well as sales of oil products.

ORIGIN OF CRUDE OIL PROCESSED	2012	2011
Middle East	17%	28%
North Africa	13%	6%
West Africa	6%	9%
Latin America	40%	26%
Europe	24%	31%
TOTAL	100%	100%

OIL PRODUCT SALES	2012	2011
Thousands of tons		
SALES BY GEOGRAPHIC AREA		
Sales in Europe	38,277	33,548
Own marketing	19,417	20,558
Light products	16,618	17,580
Other products	2,799	2,978
Other sales ⁽¹⁾	7,131	6,400
Light products	6,567	4,814
Other products	564	1,586
Exports ⁽²⁾	11,729	6,590
Light products	4,554	1,754
Other products	7,175	4,836
Sales - rest of the world	4,467	4,257
Own marketing	1,999	1,862
Light products	1,788	1,579
Other products	211	283
Other sales ⁽¹⁾	1,583	1,548
Light products	1,214	1,231
Other products	369	317
Exports ⁽²⁾	885	847
Light products	344	264
Other products	541	583
TOTAL SALES	42,744	37,805
SALES BY DISTRIBUTION CHANNEL		
Own marketing	21,416	22,420
Light products	18,406	19,159
Other products	3,010	3,261
Other sales ⁽¹⁾	8,714	7,948
Light products	7,781	6,045
Other products	933	1,903
Exports ⁽²⁾	12,614	7,437
Light products	4,898	2,018
Other products	7,716	5,419
TOTAL SALES	42,744	37,805

⁽¹⁾ Includes sales to operators and bunker sales.

⁽²⁾ Expressed from country of origin.

The last quarter of 2011 saw the commissioning of the expansion and improvement works at the Cartagena (C10) and Bilbao (URF) refineries. During 2012 the operation was consolidated with the new units and in the second half of the year refining margins were improved in line with expectations.

Following successful completion of these projects, Repsol has met the objectives initially set out in its investment strategy:

- increasing the distillation and conversion capacity of the refining system so as to maximize production of medium distillates given the current shortage, cutting down on fuel oil production processing heavier crude oils.

- improving energy efficiency and safety while reducing environmental impact.
- positioning Repsol's refining model as one of the best and most efficient.

The C10 project has enabled the company to boost production capacity at the Cartagena complex to 11 million tons (220,000 barrels per day). Now geared towards the production of medium distillates –over 50%– and with capacity to process heavy crude oils with greater added value, the upgraded refinery will help improve the balance of trade in Spain by reducing the country's reliance on imports of automotive fuels. It is in fact the most ambitious industrial project in Spain's history, one that has generated wealth during the construction stage (€3,100 million in approximate investment, involvement of over 20,000 people, average employment of 3,000 workers over three years) and will continue to generate wealth once it is operational (1,600 direct jobs and more than 8,000 indirect jobs). With the project now completed, the Cartagena refinery has become a modern facility and one of the most efficient in Europe in terms of energy and environment.

Thanks to the URF project, conversion capacity at the Bilbao refinery has increased significantly, with the plant now processing heavy crude oils and maximizing the production medium distillates.

Both projects were completed with excellent safety ratios, on schedule and within the approved budget.

Both projects form part of Repsol's drive to adapt its facilities to the production of clean transport fuels, encouraging the use of biofuels (biodiesel) while improving energy efficiency, security and the associated environmental respect.

In 2012, progress was made in the engineering and construction phases of a new production plant for next-generation base lubricants, a joint facility with the Korean company SKL. On November 27, the first stone of the plant was laid at a ceremony attended by local and regional authorities, as well as the senior management of the company's two partners.

The plant, adjacent to the refinery in Cartagena, will involve an estimated investment of €250 million and its launch is scheduled for 2014. The Tarragona and Cartagena refineries will provide the raw materials for the plant.

The base oils produced are needed in the manufacture of lubricants for Euro IV/V engines, and involve a major reduction in emissions and consumption.

At year-end 2012, as part of the Repsol Group's plan to integrate people with disabilities, 86 disabled people formed part of the workforce at its industrial complexes and offices in Spain.

Marketing

Repsol markets its range of products through an extensive network of service stations. In addition, marketing activity includes other sales channels and the marketing of a wide range of products, such as lube oils, bitumen, coke, and derivatives.

Total marketing sales closed at 21,416 million tons, representing a decrease of 4.5% over the previous year. This drop was due to shrinking demand, which was particularly evident in Spain. The declines in domestic consumption were offset by international growth and new business opportunities.

In this regard, emphasis is placed on the opening of new product marketing lines abroad, the maintenance of petrol and diesel market shares in Spain, and the improvement of the position in Portugal.

In this complex environment, the management of sales margins and credit risk enabled positive results to be obtained both in the service stations channel and in direct sales to the end consumer.

At year-end 2012, Repsol had a network of 4,549 service stations in countries where the Downstream division operates. In Spain, the network comprised 3,615 points of sale, 70% of which had a strong concessionary link to the network while 30% were company operated. Service stations in other countries were spread throughout Portugal (427), Italy (174) and Peru (333).

The Downstream business had the following points of sale (service stations and supply units) as of December 31, 2012:

Points of sale	Controlled by Repsol ⁽¹⁾	Branded ⁽²⁾	TOTAL
Spain	2,522	1,093	3,615
Portugal	264	163	427
Peru	116	217	333
Italy	53	121	174
TOTAL	2,955	1,594	4,549

⁽¹⁾ Owned or controlled by Repsol under long-term commercial agreements or other types of contractual relations that ensure direct long-term control over these points of sale.

⁽²⁾ "Branded" refers to service stations owned by third-party dealers with whom Repsol has entered into a new branding agreement entitling Repsol to (I) be the sole supplier of these service stations and (II) to use its brand at the service station. In the EU, the maximum term of these agreement is five years.

In Spain, Repsol markets its fuels under the Repsol, Campsa, and Petronor brands, with the following distribution as of December 31, 2012:

Brand	Point of sale
Campsa	161
Repsol	3,128
Petronor	301
Other	25
TOTAL	3,615

The company maintains its partnerships policy with market leaders such as El Corte Inglés, with a joint promotional campaign to offer discount vouchers for purchases of a certain value, both in Repsol service stations and its own chain of stores. Repsol has also strengthened its strategic alliance with Burger King and has advanced its implementation of the Auto King outlets in its service station network in Spain.

As a company committed to technological innovation, Repsol, along with La Caixa has supported the implementation of a faster contactless payment system that is the quickest on the market, allowing customers to pay remotely and very useful in busy outlets such as service stations. Repsol is the first Ibex 35 company to use this technology. Furthermore, in 2012 the "Repsol Mas" loyalty card also launched, applying instant discounts on transactions at service stations.

Repsol became the leading European producer and marketer of green coke, acquiring new relevance in this business and tripling sales volumes despite the difficult market situation. At present the Group is involved in a process of international expansion, mainly in the Mediterranean and North Africa.

In line with this idea of growth and consolidation, Servicios Logísticos de Combustibles de Aviación (SLCA), in which Repsol holds a 50% interest, has started in-plane refueling operations in Spain's two main airports: Madrid-Barajas and Barcelona-El Prat. As a result SLCA has become the second largest operator in Spain by number of airports and business volume. In the current economic environment, it is noteworthy that 100 new staff were recruited in this area.

Following the strategic policy of the company to consolidate its market position in Portugal, the Boa Nova and Sines logistics projects have been launched, enabling Repsol to achieve a better supply foothold in the country.

Confirming the growth and consolidation strategy, over 60% of specialized sales are made in the international market, operating in over 100 countries and with 40 international distributors of lubricants. Highlights include the signing of an agreement to manufacture lubricants for Russia and the start of construction of the third-generation base lubricant plant in Cartagena.

True to its social commitments, in 2012 Repsol consolidated the employment and integration of people with disabilities and advanced in its commitment to sustainability, respect for the environment and safety of people by renewing the Repsol Bio Telex 46 lubricant line, which received the European Eco-label distinction. The company also developed other environmentally friendly products at the Repsol Technology Center, including as Bio Repsol Telex 68 oil and green asphalts.

Additionally, the Executive division of Marketing Europe received the Eventplus Silver Award in the category of Best Convention 2011 for its innovative staging, replacing printed materials by projections on a stage built from reusable materials.

Liquefied petroleum gas (LPG)

Repsol is one of the leading retail distributors of LPG in the world, ranking first in Spain and Peru, and maintaining top positions in Portugal and Ecuador. In 2012, the company operated in seven different European and Latin American countries.

LPG sales in 2012 totaled 2,537 thousands of tons. Meanwhile, total sales in Spain slumped by 6% year on year, primarily due to lower retail sales of bottled lines and lower LPG consumption in the petrochemical sector. Repsol distributes bottled, bulk, and piped LPG in Spain through the collective distribution and Autogas networks, with over 5 million active customers. Bottled LPG sales accounted for 62% of total retail LPG sales in Spain in 2012, through a network of 225 distribution agencies.

Sales volume of LPG	2012	2011
Thousands of tons		
Europe	1,414	1,486
Spain	1,271	1,325
Rest of Europe ⁽¹⁾	143	161
Latin America	1,123	1,212
Peru	622	625
Ecuador	374	375
Chile	112	194
Rest of Latin America ⁽²⁾	15	18
TOTAL	2,537	2,698
Bottled	1,367	1,497
Bulk, piped and other ⁽³⁾	1,170	1,201
TOTAL	2,537	2,698

⁽¹⁾ Portugal in 2012 and Portugal and France in 2011.

⁽²⁾ Colombia in 2012 and Brazil in 2011.

⁽³⁾ Includes sales to the automotive market, LPG operators and others.

In Spain, prices continue to be regulated for piped LPG and bottles between 8 and 20kg, excluding bottled mixtures for using LPG as fuel. The pricing system ordered for bottled gas by the Ministry of Industry, Trade and Tourism in September 2009 (ITC 2608/2009) has significantly impacted on the retail margins of this product in the first nine months of the year. According to this model, 25% of the price to be applied in a quarter is pegged to the international prices in the preceding quarter with a time difference of one month and the remaining 75% depends on the maximum price prevailing in the concluding quarter.

On June 19, the Supreme Court issued a ruling (published in BOE [Official Gazette] of July 20), partially upholding the appeal filed by the LPG Operators Association (AOGLP), and most significantly, declaring the nullity of Order ITC 2608/2009, in force on that date, on the updating of regulated bottled LPG prices. The prices for fourth quarter 2012 published by the Ministry of Industry were calculated according to the previous Ministerial Order ITC 1858/2008.

In the BOE of December 31, 2012, Royal Decree-Law 29/2012 of December 28, was published on improving management and social protection in the Special Scheme for Domestic Workers and other economic and social measures.

The aforementioned Royal Decree-Law provides that from January 1, 2013, the maximum sales price, before tax, of bottled liquefied petroleum gas, as defined in section two of Order ITC/1858/2008 of June 26, will be the price defined in the Resolution of September 24, 2012, issued by the Directorate General for Energy Policy and Mines, publishing the new maximum sale prices, before tax, of bottled liquefied petroleum gases, in bottles with a capacity equal to or greater than 8 kilograms, but less than 20 kilograms, excluding bottled mixtures for using liquefied petroleum gas as fuel, until the next review scheduled for March 1, 2013, pursuant to the first final provision of that Order.

In Portugal, Repsol distributes bottled, piped and bulk LPG and Autogas to end customers while also supplying other operators. Sales in 2012 reached 143,000 tons, making the company the third largest operator with a 21% market share. In 2012 it launched the product "Conta Gas 12" with the aim of providing a new service to customers at a time of economic crisis. This is a pioneering LPG product in Portugal that allows a segment of bulk customers to pay their bills in monthly instalments.

In Latin America, Repsol sells bottled, bulk, piped and automotive LPG in the home, commercial and industrial markets with sales of 1,123 thousands of tons.

AutoGas (LPG vehicles) is the most widely used alternative fuel in the world, with over 21 million vehicles (eight million in Europe). Although it has yet to make any meaningful impact on the Spanish market, sales grew by 22% in 2012, indicating increased demand for this economic fuel that also helps to improve air quality within cities. The industry expects that roughly 200,000 vehicles will be running on Autogas in Spain in five years' time.

Repsol, fully aware of the growing interest in this alternative fuel, had 375 points of sale equipped with AutoGas pumps at year-end 2012, of which over 160 are in Spain. Additionally there are already 280 supply points at customer sites.

In Peru, in July 2012 the Ministry of Energy and Mines introduced the Energy Social Inclusion Fund (FISE) which, among other measures, established the distribution of discount vouchers worth 16 soles per 10kg bottle of LPG, allowing the more impoverished sectors of society to access and consume LPG, thus substituting other sources such as kerosene and firewood. The voucher program began with a pilot scheme in the province of La Convention (Cusco).

In 2012, GLP Peru, with the support of Fundación Repsol, handed out around 9,000 cookers to homes Piura and plans to deliver another 7,500 to households in Cajamarca, as part of the NINA project to replace domestic consumption of kerosene and firewood with LPG, introduced by the Peruvian Ministry of Energy and Mines in 2009.

In order to improve living conditions in emergency situations, like those arising in the aftermath of earthquakes and floods, Repsol has put together emergency aid kits. Fundación Repsol has donated 1,000 kits to the Spanish Military Emergency Unit (UME) for distribution to the affected population when required in situations of emergency necessity.

Chemicals

The chemical division produces and markets a wide variety of products, ranging from basic petrochemicals to derivatives. Its products are marketed in over 90 countries, leading the market on the Iberian peninsula.

Production is concentrated at three petrochemical complexes located in Puertollano, Tarragona (Spain) and Sines (Portugal), where there is a high level of integration between basic and derivative chemicals, as well as with refining activities, in the case of the Spanish facilities. Repsol also has a number of subsidiary and affiliate companies, through which the company produces styrene derivatives, chemical specialties and synthetic rubber at special plants. The latter is produced through Dynasol, a 50% partnership with the Mexican KUO Group, with plants in Mexico and Spain and another one under construction in China with local partner Shanxi Northern Xing'an Chemical Industry.

Weak demand, the high level of uncertainty about the growth of the economy and the inability to adapt prices to the rising raw materials costs conditioned the income for the year. However, the consolidation of strong cost-cutting measures and production adjustments at the plants, along with the optimization of integrated margins helped to minimize losses in 2012.

Sales to third parties amounted to 2,309 million tons, down from 2,659 million tons in 2011.

The main efforts in 2012 focused on the improvement and optimization of existing assets, driving efficiency, reducing costs and improving quality, safety and environmental compatibility standards. Emphasis was also placed on diversifying the investment portfolio. In this regard, at the Puertollano Complex, after the conversion of an existing unit in 2012, a new unit for the production of EVA polymers was commissioned, leading to an increase in capacity of 15,000 tons of differentiated products.

OPERATING FIGURES, CHEMICALS	2012	2011	VARIATION 2012/2011
Thousands of tons			
Capacity			
Basic petrochemicals	2,808	2,808	0%
Derivative petrochemicals	2,942	2,933	0.3%
TOTAL	5,750	5,741	0.2%
Sales by type of product			
Basic petrochemicals	731	889	(18%)
Derivative petrochemicals	1,577	1,770	(11%)
TOTAL	2,308	2,659	(13%)
Sales by region			
Europe	1,997	2,311	(14%)
Rest of the world	311	348	(11%)
TOTAL	2,308	2,659	(13%)

The following table details the production capacity for the main petrochemical products, mainly in Europe, as of December 31, 2012:

PRODUCTION CAPACITY	
Thousands of tons	
Basic petrochemicals	2,808
Ethylene	1,362
Propylene	904
Butadiene	202
Benzene	290
Ethyl tert-butyl ether	50
Petrochemical derivatives	2,942
Polyolefins	
Polyethylene ⁽¹⁾	883
Polypropylene	520
Intermediate products	
Propylene oxide, polyols, glycols, and styrene monomer	1,189
Acrylonitrile/Methyl methacrylate	166
Rubber ⁽²⁾	115
Other ⁽³⁾	69

⁽¹⁾ Includes ethylene vinyl acetate (EVA) and ethylene butyl acrylate (EBA) copolymers.

⁽²⁾ Includes 55,000 tons of production capacity in Mexico.

⁽³⁾ Includes styrene derivatives and specialties.

New Energies

The New Energies business unit was created by the Repsol Group in 2010 to promote and provide business sense to the new initiatives that contribute to a vision of the future where energies are more diversified and produce fewer carbon dioxide emissions.

The aim of this new business unit is to identify new opportunities, promote projects and carry out initiatives in fields such as bioenergy and renewable energies applied to transport and other areas that could share synergies with Repsol's current businesses and the geographic regions in which it operates.

In 2012 New Energies continued to develop a number of projects initiated from the outset consisting in bioenergy development, microalgae research and wind farm promotion projects.

In 2012 Repsol continued to develop the electric mobility business through IBIL and IBILEK. In this sense, IBIL extended the scope of its activity throughout Spain with the opening of seven sales offices. In addition, a control center was launched for the monitoring and comprehensive management of the infrastructure and business, the first of this kind in Spain. IBIL has already more than 300 recharging stations operating in both the public and private sectors. Development has begun along these lines on fast recharging infrastructure at the service stations of the Repsol Group. Meanwhile, IBILEK offers electric mobility services through the public rental electric cars per hour (operating in the three Basque provinces) and corporate (among the three branches of Repsol in Madrid).

In 2011, Repsol acquired 100% of Sea Energy Renewables, later renamed Repsol Nuevas Energías U.K., a British company based in Scotland engaged in the promotion and development of offshore wind farms. With the deal, Repsol acquired development rights at three offshore wind farms off the Scottish coast.

Within the context of this same deal, Repsol reached an agreement with EDP Renováveis for the joint development of two of these wind farms, namely the 1,500-MW Moray Firth wind farm and the 905-MW Inch Cape facility. Following the operation, Repsol owns 33% and 51% interests in these facilities, respectively. The company also holds a 25% stake in the Beatrice wind farm with Scottish and Southern Renewables owning the remaining 75%. Thanks to the new deal, Repsol now holds rights to develop, construct and operate 1,190 MW of installed capacity in the United Kingdom.

During 2012 Repsol executed the investment plan for these three projects according to schedule and incorporated the capacities needed to ensure their development. The main milestones included the applications submitted for the development of both the Beatrice and the Moray Firth offshore wind farms (in April and August, respectively). Additionally, work continues on filing the application for Inch Cape in the first half of 2013.

During the project development stage, to be completed between 2014 and 2015, the necessary studies will be conducted and steps taken to acquire the construction and operating permits for the facilities, with commissioning expected to take place between 2015 and 2020. These projects will allow Repsol to apply its considerable technological expertise in offshore operations, coupled with its experience in large-scale engineering projects.

In addition to managing the investments made in 2010 and 2011, the New Energies division has made the following investments in 2012, all them through Repsol New Energy Ventures, S.A., a 100% subsidiary of the Repsol Group.

In June 2012, Repsol acquired 31% of the Portuguese company Windplus dedicated to the development and demonstration of Windfloat technology based on semi-submersible floating platforms for the installation of offshore wind farms. Windplus already has a full-scale prototype in operation off Portugal's northern coast.

In July 2012 Repsol bought 50% of the company NEOL Biosolutions, an offshoot of Neuron Biopharma's bioindustrial division. The mission of NEOL, based in Granada, is the selection and improvement of microorganisms, together with the development and patenting of second-generation biofuel production processes.

In October 2012 Repsol New Energy Ventures and Invierte Economía Sostenible signed an investment commitment for €21 million to make joint investments over the next five years in small and medium-sized Spanish companies that develop innovative technology initiatives in the sectors of bioenergy, renewable generation, electric mobility, energy storage and energy efficiency.

These investments, channeled through Repsol New Energy Ventures in companies with a distinct technological profile, aim to participate in and encourage the development of innovative technologies related to the lines of business of the New Energies division.

In addition, on January 16, 2013, Repsol New Energy Ventures, S.A. acquired 18% of the Dutch company Tocardo, BV, dedicated to developing power generation technology in rivers and ocean currents.

Investments

Operating investments in the Downstream division totaled €666 million compared with the €1,704 million last year, which is a 61% decrease, corresponding chiefly to the completion of major refining projects. Most of this amount will be used for operating improvements at facilities and to fuel quality, in addition to safety and the respect of the environment.

Divestments

In 2012, Repsol reached an agreement with a consortium of Chilean investors, led by Larrain-Vial, for the sale of 100% of its subsidiary Repsol Butano Chile for approximately \$540 million. Repsol Butano Chile had a 45% share of Lipigas, a company with a presence in the Chilean and Colombian LPG markets, in addition to other financial assets.

The sale of these subsidiaries is a further step for Repsol in the implementation of its Strategic Plan, which contemplated the selective divestment of non-strategic Downstream assets.

Gas Natural Fenosa

Results

Repsol's 30% stake in Gas Natural Fenosa generated an operating income of €920 million in 2012, up from €887 million in 2011, despite a lower contribution of capital gains from the sale of assets over the previous year.

This positive trend is mainly explained by diversification efforts and the increasing contribution of international activities and the balance provided by the business profile of Gas Natural Fenosa which offset the effect on income from divestments carried out in 2011 and the stagnation of results in the regulated electricity business in Spain owing to the impact of Royal Decree-Law 13/2012.

The main operating highlights for the business are described below. In the interests of clarity, the figures shown below are those generated by Gas Natural Fenosa, even though the Group's holding in the company is 30%.

Gas distribution

Spain

Business in Spain includes the compensated gas distribution activity, the ATR (third-party network access services) and secondary transport, as well as non-compensated distribution activities (rental of gas meters, connections to customers, etc.).

Within the framework of the action plan approved by the Spanish National Antitrust Commission (CNC) in relation to the Unión Fenosa acquisition process, on June 30, 2011 the sale was concluded of 304,456 natural gas supply points, representing consumption of 1,439 GWh in the Autonomous Community of Madrid that were acquired by Madrileña Red de Gas Group. Sales from regulated gas business in Spain amounted to 195,769 GWh in 2012, down 2.7% on the same figure for 2011.

Gas Natural Fenosa has continued to expand its distribution network and number of supply points, although it should be noted that the figures provided have been offset by the divestments made in 2011. Reduced activity in the new construction market continues to condition the increase of supply points, partially offset by a greater number of connections in the domestic property market.

At year end, the gas distribution network spanned 46,541 kilometers, an increase of 6.1% year-on-year, and the number of supply points came in at 5,124,000, 1.5% higher than 2011.

Latin America

This covers gas distribution activity in Argentina, Brazil, Colombia and Mexico. In 2012, the number of gas distribution supply points reached 6,090,470 customers. Year-on-year growth rates remain high, showing an increase of 207,565 supply points, with Colombia turning in a particularly solid performance, where new supply points amounted to 111,159.

Sales from gas activity in Latin America, (gas and third-party network access services), totaled 210,358 GWh, a 10.1% increase compared with last year's figure.

The gas distribution network has been extended by a further 1,503 kilometers over the last 12 months, reaching 67,334 kilometers at year-end 2012, representing growth of 2.3%.

Italy

Business in Italy includes rate-regulated gas activities and sales.

Gas Natural Fenosa reached a total of 448,967 supply points in the gas distribution business in Italy, up 2.0% on the same figure for financial year 2011.

The gas distribution activity stood at 3,647 GWh, marking an increase of 1.9% compared to 2011, primarily due to favorable weather conditions. The distribution network was extended by 149 kilometers to reach 6,885 kilometers at the close of the year.

Power distribution

Spain

This business includes regulated power distribution activity and customer network services, mainly connection and link-up rights, metering, and other services associated with third-party access to the company's distribution network. Electricity supply points experienced mild growth of 0.6% in 2012 to reach 3,772,495.

In 2012, power effectively supplied remained at similar levels as 2011, reaching 33,763 GWh, despite the fact that overall electricity demand has dropped by 1.7%, in line with the nationwide trend.

Latin America

Business here encompasses regulated power distribution in Colombia, Nicaragua and Panama.

Following its divestment, as of June 1, 2011 the electricity distribution business in Guatemala is no longer consolidated in the results.

Sales by the power distribution business in Latin America represented 18,074 GWh, marking an increase of 2.1%, despite the inclusion in the previous year of sales from distributors in Guatemala. The number of supply points showed an increase of 3.8%, reaching 3,700,934.

Moldova

Business in Moldova involves regulated power distribution and marketing at a tariff in the capital and metropolitan area and in the country's central and southern regions. Gas Natural Fenosa distribution in Moldova accounts for 70% of the country's total.

The energy delivered climbed by 3.3% while the supply points, which totaled 836,000, also experienced year-on-year growth. Sales from the electricity distribution business stood at 2,525 GWh.

The management streamlining plan being developed in Moldova is enabling the planned objectives to be met and improving basic operating figures.

Electricity

Spain

The electricity business in Spain includes power generation activities, the wholesale and retail marketing of electricity in the deregulated Spanish market, the supply of electricity at the tariff of last resort and electricity trading in wholesale markets.

In 2012, the national electricity demand stood at 251,749 GWh which represents an annual decrease of 1.4% over the previous year. After correcting this percentage to factor in the effects of the number of working days and temperatures, the actual drop in demand was 1.8% during the year.

Gas Natural Fenosa power generation throughout the Iberian Peninsula amounted to 37,144 GWh in 2012. Of this amount, 34,425 GWh came from ordinary system generation, and 2,719 GWh from special system generation. This represents a year-on-year slump of 2.5% as a whole, broken down as 3.6% under the ordinary system chiefly due to divestments and reduced hydroelectric output and 14.2% under the special system. Gas Natural Fenosa's accumulated share in ordinary system generation at December 31, 2012 was 20.7%, equaling the previous year.

Hydroelectric production in totaled 1,665 GWh, marking a year-on-year drop of 42.4% due to a very dry year from a hydrological standpoint. The generation of electricity using combined cycle sources in 2012 reached 20,602 GWh, 14.0% lower than the previous year, a figure affected by divestments in combined cycles. Nuclear production increased slightly compared with 2011. The upshot for Gas Natural Fenosa of the enactment of the Royal Decree on the Guarantee of Supply is that the national coal-fired plants affected by the new law are operating non-stop with production levels of 7,724 GWh, in comparison to the 4,464 GWh generated in 2011.

Sales from the electricity marketing business came in at 35,910 GWh.

Latin America

This section relates to power generation assets in Mexico, Puerto Rico, Panama and the Dominican Republic.

Power generated in Latin America stood at 18,188 GWh in 2012, higher than the previous year, mainly in Mexico and Puerto Rico.

Kenya

This section includes power generation in the African country. In 2012, Kenya's fuel-based power generation reached 646 GWh, down 15.8% from 2011 owing to lower demand for thermal power in the country as the result of higher rainfall during the year and, consequently, the rise in reservoir levels.

Infrastructure

This business includes the development of integrated liquefied natural gas projects; oil and gas exploration, development, production and storage; sea transport management and operation of the Maghreb-Europe gas pipeline.

Gas transportation activity carried out in Morocco through the companies EMPL and Metragaz represented a total volume of 116,347 GWh, up 4.0% on the previous year. Of this figure, 79,475 GWh were transported to Gas Natural Fenosa through the company Sagane, while 36,872 GWh were earmarked for Portugal and Morocco, representing growth of 17.9%.

In relation to exploration and production activities, the Villaviciosa exploration license will be abandoned, geological and geophysical surveys have been performed in the Bages area (Barcelona) and progress continues with processing applications for five projects in the Guadalquivir Valley area.

Supply and marketing

This business area is engaged in the supply and marketing of gas (wholesale and retail) both in Spain and abroad, and of other products and services related to retail marketing and also marketing of the gas tariff of last resort in Spain.

Gas Natural Fenosa's supply and marketing in the Spanish gas market reached 238,451 GWh, representing an increase of 0.7% over the previous year, chiefly due to increased sales to end customers which increased by 5.3%, while the supply to third parties in the Spanish market fell by 11.0%.

Supplies to the international market climbed noticeably to reach 89,607 GWh, marking an increase of 24.9%.

Unión Fenosa Gas

This business embraces the gas supply and marketing activities carried out by Unión Fenosa Gas, including the liquefaction infrastructure in Damietta (Egypt), regasification infrastructure in Sagunto (Spain) and management of the shipping fleet.

Gas supplied to the Spanish market reached 55,683 GWh, representing a year-on-year drop of 2.2%. In addition, 28,200 GWh of energy was handled through international sales transactions in various markets.

Investments

Repsol's operating investments over the year in relation to its stake in Gas Natural Fenosa amounted to €432 million, in comparison to the €582 million reported in 2011 due primarily to decreased investment in the Spanish regulated market, but partly offset by increased investment, mostly in Latin America, channeled chiefly in Mexico, Brazil and Colombia.

Corporate areas

People management

At year-end 2012, Repsol had a consolidated workforce of 29,985 people representing over 80 different nationalities. Of this figure, a total of 23,995 employees were working at companies under the direct control of Repsol. All the information presented in this section refers to these employees. The company's employees work in more than 30 countries, chiefly in Spain (71%) and Peru (13%) but also in countries such as Portugal (5%) and Ecuador (4%). Of the total number of employees, 76% work in the Downstream division, 13% in Upstream and LNG, and 11% in corporate departments.

The breakdown of the workforce is 1% executive personnel, 8% technical managers, 49% technicians, 5% administrative staff and 38% operators. Permanent work contracts account for 91% of the total, while women represent 32% of the total workforce.

During financial year 2012 a new organizational structure was approved that has led to changes both at senior levels and the other organizational levels of the company's different departments. These changes reinforce the current model, favoring the development of internal talent and providing new career opportunities to Repsol's professionals. These changes notably included the hiring of 33 people to the management team 2012 and the announcement of numerous reshuffles in different businesses and corporate areas.

Diversity and balance

Diversity and Balance Committee has continued to promote the programs initiated in previous years: telecommuting, recruiting people with disabilities, working hours, efficient time management and cultural diversity.

Throughout 2012 the telecommuting program was extended to industrial complexes and sales offices throughout Spain and a telecommuting pilot project was launched in Peru involving 26 employees and in Ecuador with 10 employees.

At year end, more than 1,000 people worldwide had signed up to the scheme, representing an annual increase of 45% and demonstrating positive progress towards a corporate culture based on commitment, efficiency and reaching targets.

In 2012 the White Paper on Teleworking was presented and published, summarizing Repsol's experience as a pioneer in the industrial field.

Also noteworthy were the company's advances in providing flexible work hours for all Repsol's workers, adapting to the customs of each country as well as its commitment to provide minimum paid leave conditions throughout the world (maternity, paternity or breastfeeding leave, leave following the death of a family member and marriage leave), improving the statutory leave in most countries where Repsol is present.

In the case of Spain, the measures related to the flexible working hours implemented at the headquarters in Madrid following the VI Framework Agreement were well received by employees, namely:

- Two-hour flexible start time (between 7:30 and 9:30) in winter.
 - Minimum lunch break time reduced to 45 minutes.
 - Monthly totals of working time, allowing employees to distribute the working day according to their personal needs.
 - The continuous shift on Fridays remained unchanged throughout the year, with the possibility of moving this afternoon off to another day in the week, with the prior approval of supervisors.
- As for progress and new measures towards work-life balance:
- Special leave was introduced for employees to care for their children who are minors and who are suffering from serious illness requiring long-term hospitalization.
 - The company renewed the choice of free healthcare sessions/services that employees can benefit from at home in case of illness or illness of a family member. These services cover specialized personnel including psychologist, nurse, physical therapist, tutors for convalescent children, home help, daily help for senior citizens, and other services such as delivery of medicines or telephone help for dependent children or elderly relatives.

- Under the name of "Tu Banco de Tiempo" employees at the head office have a series of time-saving services that allow them to arrange tasks not related to work, such as processing official applications, dry cleaning and home repairs without leaving the workplace. These measures represent a means of saving of time and effort and are very popular among employees.

The Program for Efficient Time Management is aimed at fostering a more flexible and efficient use of time, based on factors such as planning and prioritizing work tasks, and the use of new technological tools that streamline work processes and encourage communication.

After the training and awareness efforts in previous years regarding the efficient use of e-mail, in 2012 an interactive tutorial was developed for the efficient management of meetings that was forwarded to employees via the various internal communication channels.

In 2012 the company reached the figure of 547 people with disabilities directly recruited worldwide (437 in Spain, 17 in Portugal, 39 in Peru, 38 in Ecuador, 10 in Venezuela and 6 in Brazil) with an additional 170 people hired under other systems in Spain. These employees are integrated into all areas of the organization and 22% of them work in qualified technical positions. In 2012, significant efforts were made to encourage the hiring of disabled employees in the industrial area and awareness-raising campaigns have continued.

In terms of cultural diversity, in 2012 a study was performed to understand the perceptions of employees and identify potential cultural barriers and success stories, and define a management model that capitalizes on the cultural richness of Repsol as a competitive advantage.

The study included a total of 4,916 employees worldwide, through an online survey, supplemented with 27 focus Groups and 39 personal interviews.

Employee lectures were also scheduled to raise awareness about the cultural character of countries in which the company is strengthening its presence, such as China, South Korea, Brazil, Angola, Algeria and Russia. Various workshops were also organized on 'management skills in multicultural environments' and other specific Group coaching activities for staff who perform their duties in particularly multicultural environments.

All the diversity and work-life balance programs are geared towards staff with the commitment to providing a flexible and attractive working environment, and understanding that diversity is a differential element that provides greater innovation and competitiveness to the organization, hence its management and promotion is one of the company's top priorities.

Repsol has partnerships and agreements in place with different organizations which advise the company in a number of areas. In Spain, these include the Framework Cooperation Agreement between Repsol, ONCE and their respective foundations, with action geared towards developing and enhancing the social integration of people with disabilities.

In 2012 a cooperation agreement was signed with the *Fundación Inteligencia y Sociedad* (Intelligence and Society Foundation) in order to facilitate the incorporation into the company of people with social integration difficulties stemming from their high IQ levels. In July 2012 the company also joined an initiative to raise awareness against gender violence launched by the Spanish Ministry of Health, Social Services and Equality. This agreement is part of the initiative "Companies towards a society free of gender violence" and seeks to spotlight the scourge of gender violence in our society by stressing the importance of raising awareness and continuing to provide employment opportunities for victims of such violence.

In the area of gender equality, Repsol, S.A. continues to be one of the companies recognized with the Corporate Equality Label, promoted by the Spanish Government. This distinction is awarded to companies whose equal treatment and opportunities policies for workers deserve special recognition.

Also in 2012 a collaboration agreement was signed with the *Fundación Activos de Gran Experiencia* (AGE) (Highly Experienced Assets Foundation), in order to improve age management policies in the organization.

A diversity management study was recently performed in to analyses all its aspects in the company (gender, culture, generation, people with disabilities, etc.). The analysis collects and contrasts a large number of variables related to experience, talent, training, compensation and employment status, among others, and its ultimate goal is to ensure compliance with the Repsol's respect policies, encouraging diversity and equal opportunities for all people. The report shows the company is advancing in the right direction and indicates some possible points of analysis, such as the professional development of assets with greater experience.

The company's different diversity and work-life balance programs have been externally recognized with prestigious awards, including:

- The Reina Sofia Prize 2012 for the Professional Integration of People with Disabilities convened by the Royal Trust for People with Disabilities, in recognition of the continued work on the implementation of deliberate and calculated policies for the professional integration of people with disabilities in the workforce. The jury noted the advanced level of development of practices devoted to promoting accessibility in the company's physical and virtual environments, the recruitment of people with a high degree of disability and the social work carried out by the Repsol Foundation.
- The "Empresa Inteligente" (Intelligent Enterprise) certificate for Repsol's commitment to hire exceptionally talented young people.
- The Spanish Confederation of People with Physical and Organic Disabilities (COCEMFE) has awarded Fundación Repsol the COCEMFE 2012 Award in the category of Best company for improving the quality of life of people with disabilities.
- Repsol has been awarded "El Diamante de la Compra" ("The Purchasing Diamond") prize in the category of "Special employment centers as a source of supply", awarded by the Spanish Association of Purchasing, Procurement and Supply (AERCE).
- The Repsol Foundation has been awarded the Bobath Foundation prize in the private entity category for its project "Young People Affected by paralysis and brain damage. Intermediate Vocational Training", in recognition of its work towards the social and professional integration of this collective, as reported by the institution.

Climate Survey

After the completion in 2011 of the third Climate Survey among all of Repsol's permanent employees, in 2012 the workshops that began in fourth quarter 2011 to identify the causes of the issues raised were concluded.

In total there were about 350 workshops, 150 employee presentations, 89 presentations to management committees and total of 23 key personnel management factors were identified.

Throughout 2012 various action plans were defined in the main management areas of the company. These plans considered the work performed to identify the causes of the previously defined issues with cross-company lines of action.

Monitoring tasks also began to follow these actions in several areas and divisions.

Cultural change

One of the highlights of 2012 was the identification and description of the company's values. At the origin of the cultural values, the essential core of daily work, two attitudes prevail in the Repsol culture: respect and a sense of foresight.

Both concepts are defined below:

Respect: "Each of the members of the Repsol Team must care for people, society and the planet, building trusting relationships, starting with the corporate environment. Everyone must be open ideas, beliefs or practices that are different from their own, thus achieving the best results."

Sense of foresight: "At Repsol we act with a comprehensive and forward-looking vision, aware that only thus will the company be able to progress, create value and overcome the challenges raised by this vision."

Meanwhile, Repsol's corporate values are identified as: flexibility, transparency, innovation, integrity and accountability.

In 2012 innovation became considered a corporate value with the following statement: "at Repsol we believe that the key to our competitiveness and evolution lies in our ability to generate ideas and implement them in an environment of collective collaboration and learning." The development of this value will allow the Repsol Group to achieve new heights of performance.

The process of cultural change deployed by the Repsol Group implies an evolution in working methods and people management, which, in the case of innovation and continuous improvement, require collective intelligence, cross-cooperation and generosity. This common cultural foundation enables us to deploy changes through two main strategies: one based on continuous improvement activities and the second, on innovation drives. At the core of this strategy are multidisciplinary teams, who, on the basis of strategic business priorities, bring into play new patterns of conduct where continuous learning, based on sharing successes and failures, is one of the key elements of this new attitude.

Both these approaches and the values were approved by Repsol's Executive Committee and subsequently published.

Campus is one of the projects that has made Repsol's values tangible. The new headquarters is a spatial and architectural opportunity, and also an opportunity to work in a different way, highlighting what Repsol means as a company. In fact, the architectural space has made initiatives possible that revolve around people, such as flexible hours, the paperless office or the introduction of advanced telecommuting posts, all which contribute to a new work organization policy. From the standpoint of tools and systems, the workplace has evolved according to the latest technological advances in hardware and software, and a modernization process is also taking place with administrative self-management; environments such as expense and time management and job modifications are now a reality. In addition, Campus is designed from the perspective of enabling technology to lend support to the organization. Accordingly, these values are reflected in the flexibility of the spaces; in the way things are done; in responsibility towards the environment, creating a sustainable building; in the integration that considers the needs of each department and business unit; in the commitment to transparency with more open spaces and fewer offices; and in innovation, with the creation of meeting spaces that facilitate the exchange of knowledge and the use of new technologies in all these processes.

The move to the new corporate headquarters has seen the launch of a range of healthcare infrastructures and services adapted to the new environment and work style. The Campus was designed as a cardio-protected area and therefore several defibrillators have been installed at these facilities along with the major industrial centers.

Throughout the Campus project the contributions of a team of facilitators representing all the company areas and business units were taken into account. In this way, the cultural aspects and values have also been adapted according to the needs that arose during the relocation and occupancy of the new facilities.

Attracting the finest talent

To develop a professional vocation, Repsol offers different ways to recruit, motivate and engage talented individuals, helping them to develop personally and professionally, with a good working environment, skills training, internal promotion opportunities and job mobility.

It also has programs to capture young talent, professionally training them to join as part of the team. In 2012, 140 new professionals joined one of three Master's Courses offered by Repsol (Hydrocarbon Exploration and Production, Refining, Petrochemicals and Gas, and Energy Management, the latter with two courses in 2012), giving them the opportunity to learn about and understand the various business units of the company, acquire basic knowledge of business management and the management and decision models of an international company and likewise to develop the skills needed to improve their professional efficiency, closely linked to Repsol's culture and professional style.

To recruit this talent, the company took part in over 10 forums and job fairs, many of them in industrial environments and it gave talks and presentations in a number of schools, colleges, universities and associations.

Repsol has adapted to the needs of the new European Curriculum of the Bologna Accords, receiving university students with curricular work experience. Training for university students in different areas of the company has been reinforced with the signing of more than 300 scholarship agreements in 2012. These programs are aimed at graduates and final year students, preparing them for their future incorporation in the job market. The Impulsa plan, which consists of online generic skills courses targeting graduates in work experience schemes, has become an important commitment to training these interns who will later become one of the most important corporate recruitment sources.

Within the different training profiles employed throughout the company, Vocational Training internships have also have been provided for more than 60 Intermediate and Higher Level Vocational Training students, with a high percentage of these joining Repsol through various employment vacancies.

Repsol took part in various outreach programs between the education system and the business world by providing educational work experience at the company for young people to be better prepared for their professional future, motivating them and providing them with the necessary skills. A dozen secondary schools and colleges have benefited from these initiatives.

In the Careers Channel at repsol.com contents were updated and new videos of employees were included. According to market trends and the needs of the company, and with the KWD Webranking as a benchmark, a full review of the careers area has begun, using this opportunity for improvement to change our focus and reach the target audience.

The emergence and widespread presence of social networking has established a new paradigm for communication, participation and relationship with the main stakeholders. Aware of this, Repsol has improved its capacity for monitoring and measuring its image and positioning in this new environment in order to establish new points of contact with the target groups. In this sense, to enhance its image as an employer the company has expanded its presence in social networks, incorporating more information from the company and increasing the ability to recruit through this professional network.

Talent management

Throughout 2012 Repsol's talent management model was consolidated, identifying and updating the company's evaluation and development tools with the objective of making all the means, tools and processes available to everybody involved. All this is available to employees on the company intranet.

The nature of the company, the complex organizations that generate its activity and the team of people who work there, unusual owing to their diversity and highly specialized and technical skills, demands a structured career guide that integrates both technical and management factors. Therefore, in the Upstream area a technical career model was defined for exploration and production identifying key criteria and aspects of the professional career: technical disciplines, functional roles and mentoring as a basic tool for the development and transmission of technical knowledge.

The ever increasing internationalization of the company makes it necessary to support the corporate businesses and areas. A result of this is an initiative that has been launched in the area of engineering, to identify the capacity of people (193 interviews were conducted) to provide Upstream services internationally and the actions that would be needed to strengthen and adapt individual profiles to environmental demands.

Another of the keys throughout 2012 was to continue working on management style. To do so, line manager training workshops continued to be staged to improve management style and introduce techniques for evaluating and providing feedback. A total of 610 line managers went through the workshops. In this context of strengthening the management style, line manager conventions were held for all the industrial complexes, both in the Refining and Chemicals areas and the central areas.

Leadership training seminars were also run, attended by 478 individuals in the different courses:

- Communicate to Lead, 402 professionals attended in 5 different countries
- Effective Leadership, 53 professionals
- Transformational Leadership, 23 managers
- Management Fundamentals, 78 professionals
- Advanced Management, 30 professionals

Additionally, a total of 93 executives went through 6 training programs throughout the year.

The company continued to consolidate the tools it uses to assess and develop the talent of its employees, such as People Review, which provides a detailed assessment of people, generating a shared vision of each of them: their strengths, areas of improvement and professional profile. These assessments pave the way for development plans and other specific actions, and envisage mobility throughout the company. In 2012, 2,307 people were assessed in 52 People Review sessions. Note that 193 people assessed held executive positions.

Fourteen Developments Centers were staged (assessment of the level of development through individual and group tests), 10 in Spain and 4 in other countries, with a total of 112 people assessed.

The Assessment-Feedback scheme continued to be implemented in 2012 to see what perception superiors, team members, peers and internal clients have of the subject's conduct and actions. This scheme started life as a pilot initiative for the heads of the service station network in Spain. In this program 140 managers were assessed in 2012 and 827 people took part. The program includes the assessment process and the follow-up monitoring and support for managers. Additionally, in the industrial area the Feedback-Assessment pilot program was launched for

line managers at the Tarragona industrial complex, that will subsequently be rolled-out in all the complexes of the industrial area.

In 2012, a diagnostic was conducted on the quality and distribution of technical knowledge in the Upstream area, through an assessment of technical skills or critical knowledge in which a total of 1,277 people were assessed.

Since January 2012, 3,330 work migrations and 1,996 changes of job classification have been carried out.

Training

One highlight of 2012 was the launch of the Repsol Master's in Energy Management (REGE), for new professionals who will join various management positions, which provides active knowledge about the value chain at Repsol and the context in which operates, on the company's values, policies, processes, and systems, and on the professional skills that must be implemented in line with the Repsol Style. With regard to in-service training, in 2012 efforts focused on the simplification and integration of the training offer under a homogeneous and company-wide architecture.

Further support was given to the cultural transformation at Repsol in terms of responsibility for safety and the environment through the Prism program: in 2012 there have been a total of 61 events with 1,577 attendees, 62% of whom were executives and managers. The courses empowered leadership through innovation with Lean Management programs and creativity workshops, along with the improvement of digital 2.0 skills focusing on the adoption of new work and collaboration methods (new user tools Windows, Office, Lync, etc.).

These programs combine classroom tuition with online training and use the various tools and virtual training resources that are available in Repsol's Virtual Learning Environment (SCORM courses, blog, forums, information sharing, informal resources library, virtual classroom, etc.).

In addition, the Language School was renewed, currently consisting of different learning methodologies to facilitate language learning such as online courses, teaching by phone, and ad hoc courses for people with critical needs. It features an open learning space, the English Corner, available to all employees, and that can be accessed without submitting tests or applications through the Training Manager. This learning spaces has exercises, videos, listening tests, vocabulary, grammar and eBooks, creating a set of tools for self-taught and voluntary learning where employees can practice and boost their level of English.

All these projects have materialized in 9,301 different courses or events. As indicated in the table below, this area saw a total of 94,068 attendances by 18,122 people and 1,008,973 teaching hours.

Country	People	Attendances	Hours
Spain	12,191	54,499	696,470
Other countries	5,931	39,569	312,502
TOTAL	18,122	94,068	1,008,973

In the B2C field (Business to Consumer) the training offer was extended to external partners, so as to constitute a tool for transformation and a medium for transmitting commercial policies and projecting brand values. In 2012 there were a total of 387 training events, with 3,680 attendees and 48,010 hours of tuition.

In the field of professional training the company has continued its process of integrating people with disabilities and at risk of social exclusion, through training and collaboration programs with institutions (FSC Inserta, Red Cross ...) in coordination with the different People and Organization areas of the different businesses, with the goal of increasing the presence of these groups in the company. Nine courses have been conducted with the participation of 125 students, which have led to the recruitment of 30% of the students by Repsol and its branded service station network.

Furthermore, the training of 100 Intermediate Vocational Training students was performed at Training in Job Centers (FCT) giving them the opportunity to complete their work experience at Repsol service stations.

International careers

Repsol managed a Group of 652 professionals on international assignments at December 31, 2012.

A particular highlight for the year was the company's ability to respond quickly to the needs arising from new projects that the company had started in various countries. Proof of this was the recruitment of 166 employees with international profiles, both internally and externally, and the 105 migrations of existing employees between different countries, thus providing the company with specific experience in key areas to face these new challenges.

The action taken in the case of YPF, which focused on the welfare of employees and their families after the illegal expropriation, illustrates the management style for those posted or assigned abroad, characterized by an integral process that responds not only to the different needs of the company, but also the needs of employees and their family members.

Specifically, on 16 April 2012, coinciding with the announcement of YPF expropriation, a group of professionals from seven different countries (Bolivia, Brazil, Colombia, Ecuador, Spain, Switzerland and Venezuela) were posted in Argentina by the Repsol Group. This group amounted to 42 people, mostly relocated with their families.

At that date there was a group of YPF employees assigned to seven different countries where the Repsol Group has business concerns: Bolivia, Brazil, Canada, Spain, Libya, Peru and Venezuela. This group amounted to 32 people, most relocated with their families.

In the new situation, the need arose to adopt a strategy with respect to these groups, that was performed by the international assignment area in coordination with the labor relations area. As a result we have proceeded to repatriate/reassign 100% of the professionals assigned in Argentina at the time of the expropriation.

Employee remuneration

In 2012 the company implemented a process for communication and transparency with regard to remuneration. This has led to three initiatives:

1. The creation of comprehensive pay bulletins.
2. Communication of the company's remuneration systems and criteria to all employees not subject to collective bargaining agreements.
3. The preparation of wage review audits.

The comprehensive pay bulletin involves communicating all the elements of each employee's individual compensation in an up-to-date and permanent manner. It includes all the compensation headings including fixed and variable remuneration, incentives and benefits, etc. It is currently implemented in Spain for the executives and employees not subject to collective bargaining agreements, and in the future it will be extended to other countries and categories. The communication of the company's remuneration systems and criteria responds to one of the areas for improvement revealed in the last corporate Climate Survey. Workshops have been set up with the groups of professional employees managed according to these systems and criteria.

Thirdly, the preparation of audit reports for all wage review processes responds to the need to know how they have been performed and if they have appropriately applied the corresponding criteria of diversity: gender, nationality, age, etc., with the aim of implementing the necessary improvement actions.

Also responding to the need to improve employee recognition detected in the latest Climate Survey, in 2012 the company decided to promote non-monetary recognition by performing an analysis of best practices in all the countries and business areas of the Group, as well as its impact on the working environment. A list of non-monetary recognition options is being compiled that will be placed at the disposal of supervisors, along with the procedures for their management.

In 2012 programs have also been implemented in all the countries/businesses with difficulties in retaining talent owing to the high demand for professionals in their market or the lack of expectations for the future of the business, for example in Mexico.

Likewise, the implementation began of the Flexible Compensation Plan for Executives in Spain, as a pilot group, in order to accommodate the remuneration headings according to the personal needs of each executive.

With respect to employees included in collective bargaining agreements, during 2012 evaluation campaigns were performed at Repsol Exploración, Repsol Trading and Repsol S.A., according to the specific needs of these businesses.

Variable remuneration for employees included in collective bargaining agreements

For the first time in 2012 the variable remuneration system was deployed for employees included in collective bargaining agreements in Spain, linked to the achievement of the common goals of each organizational unit.

Common objectives for this group have been defined in 47 different areas, covering all the company's lines of activity in Spain.

The deployment process is aimed at ensuring that all those involved know first-hand the most critical challenges faced by each of the units, and the opportunities each of them has to contribute, focusing on:

- The context of their activity and business.
- Needs for improvement in their area.
- The relationship between business targets, indicators and challenges.
- The type of conduct and contributions that, through their activity, they can contribute to the achievement of the proposed targets.
- The company's need for each of their contributions to build a better future for everyone.
- Ensuring involvement and commitment towards generating opportunities for greater contributions with suggestions for improvements.

Findings of the Study Committee of the VI Framework Agreement

In the VI Framework Agreement the parties decided to create of a joint company-union study committee to develop a performance evaluation system for application in all the activities related to people management.

Furthermore, based on the results of the Climate Survey conducted in 2011, the need was detected among employees included in collective agreements to introduce the following topics:

- A higher level of dialogue between people managers and their colleagues.
- A better understanding of the contribution of each employee to the objectives of the area/unit.
- Individual identification of the strengths and areas for improvement to guide development.

Throughout this year, the Joint Committee developed this new system, reaching consensus on the definition of a process of performance evaluation which will be applied to the collective bargaining agreement group of Repsol's employees in Spain, since it pursues the continuous improvement of the employees' performance and their professional development.

The commitment of the agreement is to deploy and extend the system to other countries.

These initial achievements and agreements have paved the way for a new company model demanding increased commitment from everyone, reflecting and adapting to the diversity of the people that make up Repsol, and bringing about growing levels of personal and professional development.

Innovation

Innovation is a discipline that can and must be developed. During 2012 the company closely examined the development of methods and tools for innovation management. The innovation leadership program has staged 20 seminars and workshops, training events which were attended by 150 professionals from Repsol's Innovation Network. These working sessions, many of them open to other companies, have generated pilot projects of new techniques applied to the Repsol's business, such as ethnography, to understand the needs of technicians in mobility projects at industrial plants, or "design thinking" for the identification of opportunities based on new business models. With a more general scope, two new training programs have reached maturity and have been incorporated into the corporate curriculum: the Creativity Workshop and the Entrepreneurs Workshop. In the Creativity Workshop, Repsol professionals learn to use various creativity techniques to solve problems in a daily business context. During 2012 a first group of 30 trainers was prepared, training them for extending the program to the rest of their colleagues.

Simultaneously, the process of collective idea generation focused on solving business challenges has become consolidated with the establishment of a permanent corporate platform called "IdeasEnAcción" [ideas in action]. This platform supports the process of collective idea generation within Repsol and creates the Ideas Bank for future inspiration where the best 1,500 ideas are collected from 10 campaigns in which 13,000 professionals from around the world have participated. In order to pool and share the knowledge obtained in

the management of collective intelligence, in 2012 Fundación Repsol promoted a business meeting at its headquarters in which seven large companies shared their experiences in the management of ideas.

The first innovation tables were created as a collective learning environment for various cross-cutting and innovative projects that work on a common business challenge. In 2012 the first of these tables was launched around the challenge of new forms of organization with eight teams developing imaginative proposals to tackle the issues raised.

The Entrepreneurs Workshop, aimed at innovative project teams, seeks to combine corporate know-how and resources with the passion and sense of urgency of a new company. From the experience gained in preparing external entrepreneurship programs, a one-week intensive course was developed to provide support to the role of in-house entrepreneurs, giving them new tools that have proven effective with new entrepreneurs and supporting them with a culture and processes that enable resources to be allocated quickly and flexibly.

The open organization philosophy also extends outside of Repsol. During 2012 educational initiatives were consolidated through the Inspire Program (Universidad Politécnica de Madrid) and Pasion>IE (IE Business School), both in their second editions, along with collaborations in the Social Council of Universidad Carlos III in Madrid and the EsadeCreapolis campus in Barcelona. In the business sector, open innovation programs have continued to flourish at Banesto and SEAT and new initiatives have been conducted at BBVA, DHL, Grupo Planeta and Telefónica Digital.

Continuous improvement initiatives

The development of this line has rested primarily on a series of projects (18 in 2012) based on the "Lean" philosophy, an improvement methodology that involves creating more value for customers with fewer resources and motivated by the customer's viewpoint in all aspects: reduced costs, better quality and greater agility are consequences of a culture in which added value becomes a daily challenge.

With cultural change as the focus, and the achievement of results as a priority (improving value flows that impact on customers), a methodology was designed that integrates both factors. It has been applied in five pilot projects (three in Information Systems and two Upstream in Operations Quality) on the basis of the processes that are critical to their results and involving the end customer at the definition stage. Throughout the year, training initiatives were staged for managers in continuous improvement techniques and conducts. A workshop was added to the company's training offer on "Lean Management Awareness", which adapts the contents of this methodology to Repsol's needs. In 2012 more than 200 people attended awareness courses, including 70 who were participants of ongoing projects.

Additionally, during the year another innovative in-house improvement methodology was designed and implemented. The "BeyondBenchmarking" initiative is an evolution of traditional benchmarking based on the comparison of Repsol's critical processes with top companies from other sectors and allows best practices and current ideas to be identified, shared and implemented with an open innovation approach.

Accompanying change

Innovation starts with the effective mobilization of Repsol's talented professionals. Accordingly, during 2012 the company focused on implementing the conceptual and technological foundations to allow the deployment of a cross-cutting knowledge management system, fully integrated with business processes. At the core of this participation and knowledge sharing initiative are the social functionalities that have been incorporated into an in-house knowledge management environment based on the Yammer social network, which in November 2012 featured 3,000 members. A new version of the SharePoint platform has been installed that will integrate these conversations in more structured knowledge-sharing and collaboration spaces, such as communities of practice. There are currently 28 communities of practice and more than 400 interest groups with over 3,000 active users in collaborative environments.

A mainstay in the Repsol Group's knowledge management strategy is the implementation of the Autonomy search tool that enables users to locate internal and external content using advanced classification and relevance rating techniques.

During 2012, progress was made in the collection of personal experiences in narrative form, i.e. in the form of stories generally told in the first person, and usually recorded for audiovisual broadcasting. Another highlight was the knowledge management work performed by Refining during the Cartagena refinery expansion project.

Labor Relations

The VI Framework Agreement signed in 2011 with Spain's largest unions - the CC.OO. and UGT - remains in force. This Framework Agreement regulates the working conditions of Repsol's workers in Spain. Its contents have been extended to other collective agreements of the Group in Spain. In 2012 collective agreements were signed for Repsol S.A., Repsol Comercial, Repsol Directo, Repsol Butano, Repsol Química and Dynasol, General Química, Repsol Petróleo, Repsol Trading, Repsol Lubricantes y Especialidades, S.A. (Relesa), Repsol Exploración and Repsol Investigaciones Petrolíferas, S.A. (Ripsa).

At international level, the Repsol Polímeros collective agreement was signed in Sines (Portugal), effective from April 1, 2012 until March 30, 2014.

The European Committee, established to facilitate the right to information and consultation of employees working for community-wide corporations and corporate groups, met on September 4 and 5, 2012, with the presence of the UGT-R . Portugal, Portugal CGTP along with CC.OO. and UGT from Spain.

Meanwhile, the coordination committee of the Union Network [Red Sindical] held a meeting in Cartagena on May 28, 29 and 30, 2012 in which it analyzed training at the Repsol Group, the integration of people with disabilities and the financial results and signed the II Protocol for the operation of the Union Network, effective until December 31, 2015.

Health and Safety

During 2012 the company continued to deploy a new health and safety model throughout the Group. This involved transmitting its contents worldwide (activities, roles and coordination bodies), completing the analysis of the situation in other countries, defining alternative courses of action according to the differences found and adopting a strategic action approach. One highlight of this process was a the staging of a coordination meeting between countries to analyze the new situation and the establish of common lines of action.

New procedures were drafted to assist in the development and deployment of the health and safety policy. The procedure for health indicators was also updated to adapt to the new health and safety and periodic health monitoring approaches. In addition, a new phase of the internal health and safety compliance audit plan was performed at the General Chemicals, Poldix and Repsol Polymers (Sines) centers.

As part of Repsol's commitment to cardiovascular health, the Repsol Cardiosaludable (Healthy heart) plan was launched as five-year initiative through which the company aims to have a positive impact on cardiovascular risk factors at an early stage before potential health damage becomes significant. In 2012 the parameters to be analyzed were selected and the baseline was set to intensify future work on the various risk factors: smoking, obesity, high blood pressure, insufficient physical activity, diabetes, etc.

A significant support for this initiative is the Health and Wellbeing channel in the employee portal that was launched at the end of the year. The channel is a way to make relevant health and wellbeing information available to Repsol's employees.

This channel will also be an effective tool to support the various prevention campaigns and health promotion programs currently under way. The implementation of various campaigns in different countries continued in 2012, including early detection of colon and prostate cancer, blood pressure monitoring, prevention of communicable diseases, smoking, etc.

This year, in addition to the traditional content (first aid, CPR, back clinic, stress management, handling loads manually, etc.), specific training has been provided to emergency action teams about the use of defibrillators in those centers where they have been installed.

Elsewhere, in coordination with the prevention services involved, work has continued on the assessment of psychosocial risk in different units of the company.

In the field of information systems, the migration was successfully completed to the new version of the Win Medtra medical services software package and new features have been incorporated to support collective health monitoring.

Finally, both nationally and internationally, the company has continued its active participation in various forums and associations to keep pace with new organization models, policies, trends, best practices, etc.

Innovation and technology

Repsol considers that investment in R&D&i, performed with the calling to be leader, is one of the key factors in making possible a more efficient and sustainable energy system, capable of responding concurrently to the two great challenges in the sector –supply security and reduction of CO₂ emissions– while maintaining the competitiveness of the energy system. For this reason, Repsol invests in R&D to help find solutions to such important challenges, thereby providing value both to the company and to society as a whole.

Uncertainty about what will be the dominant technologies of the future, time to maturity of R&D efforts, economic cycles and pressures to reduce costs at low points in the cycle have led Repsol to develop a Strategic Technology Plan as part of its business strategy. The lines of work of this plan encompass all areas of the company: hydrocarbons exploration and production, the natural gas value chain, oil refining and its products and petrochemicals, and new energies for diversifying energy production and its use.

In 2012, Repsol invested €77 million in R&D activities carried out directly at its Technology Center in Móstoles (Spain) and a further €6 million in projects undertaken in the company's different business units. Repsol maintains an active policy of collaboration with technology centers, public and private universities and companies in Spain and internationally. The investment earmarked for these types of agreements was more than €20 million. Repsol participates in R&D financing projects run by different government authorities. In 2012 the Technology Center took part in 14 projects promoted by the Spanish government and 6 European Union projects.

Repsol has over 400 specialists in its different research centers.

R&D Programs

Upstream. In 2012 Technology division activity in this area underwent major changes after the definition of the Strategic Plan for E&P Technology for the period 2011-2015.

The challenge for the new plan is to develop and apply a new generation of technologies, in the medium term, to make it possible to successfully tackle and deal with the technological challenges demanded in the Repsol's large investment projects in coming years. This challenge has led to the approval by the Exploration and Production Executive Managing division of nine strategic projects, of which seven are being developed by the Technology division and the other two in the Geophysics Unit of the Exploration Executive division. The estimated budgets for the development of these nine projects amount to around €90 million.

In this context, one of the strategic projects that achieved significant progress in 2012, is the development ground-breaking technology for automated surveillance and the early detection of oil slicks on the water surface. During 2012 two prototypes with this technology were tested at the Tarragona refinery and the Casablanca platform in Spain, with highly promising preliminary results. These tests will continue during the first quarter of 2013.

Another strategic project with significant achievements in 2012, is the development of a technology for evaluating exploration/production opportunity portfolios quickly and reliably, minimizing the risk involved with making decisions under uncertain conditions. This tool will enable the identification of analogous reservoirs, evaluation of assets, definition of optimal production strategies, and prioritizing of business opportunities. A remarkable aspect of this project is the degree of innovation, which is reflected by the five patent applications filed in 2012 and four new applications scheduled for early 2013.

Furthermore, the development of new technologies deployed in the Strategic Plan for E&P Technology 2011-2015 demands the use of synergies and reliance on world class technology development centers along with continuous contact and proximity to the operational units that require technological solutions. For this reason, in 2012 some of the projects have been carried out in the new hubs of Houston (USA) and Rio de Janeiro (Brazil).

Moreover, the complexity of Repsol's new deposits, requires being at the forefront of analysis and interpretation technology in order to ensure efficient development. Accordingly, in 2012, the experimental rock and fluid and advanced reservoir modeling laboratories located at the Repsol Technology Center (CTR), have continued installing state-of-the-art equipment and recruiting highly-qualified staff with industry experience.

The Perla 4x project has established the guidelines for implementing an efficient workflow for core characterization studies. The CTR aspires to be a reference point in the development of this type of study and to continue supporting Repsol's various business units worldwide.

Liquefied natural gas (LNG) and alternative technologies for gas monetization. Advances in the development of floating liquefaction technologies continued in this area, aimed at the exploitation of gas reserves which cannot currently be used in an economically competitive manner. In 2012 a patent for a liquefaction process for floating systems was filed in the United States.

In the area of alternative technologies for monetizing gas reserves, there are two promising new development projects in the natural gas value chain, based on adsorption in porous materials and conversion to natural gas hydrates.

Downstream. In the area of oil refining and its derived products (petrol and diesel, LPG, asphalt, lubricants, specialized products, etc.), technological knowledge is applied to optimize the operation of refineries and to enhance product quality, with particular attention paid to advances in energy efficiency and environmental issues.

As an example of the developments in this area, it is possible to mention technologies aimed at achieving the objectives of the multi-year plan for refinery energy efficiency, together with the support for development of tools for optimizing the expansion of the Cartagena refinery, works aimed at differentiating fuels using new approaches ranging from petrol and diesel to heavy fuel oils, the use of more environmentally-friendly lubricants –formulated using regenerated raw materials and biodegradable oils–, processes facilitating the obtaining of new products for formulating tires in more demanding and competitive markets, asphalts of improved environmental quality and support for LPG applications for transport and integrated systems of improved energy efficiency.

In petrochemicals, company programs continued aimed at improving energy efficiency and cost saving and lines of technological development aimed as a priority at obtaining new differentiated and specialty products. Derivative chemicals received a boost in 2012 with the launch of differentiated catalyst-based products specially designed to generate high-performance polymers.

Highlights for intermediate products include the development of more efficient technologies, enabling a reduction of raw material consumption and the attendant costs. These technologies have been consolidated in pilot schemes that are expected to be scaled up to industrial level throughout 2013.

New energies. Technological developments in 2012 have resulted in new projects to overcome the challenges raised in the company's business strategy. In this regard, biotechnology-related activities have been reinforced through the stake acquired in Neol company dedicated to develop biofuels from the selection and improvement of microorganisms, and also to studying processes for obtaining biofuels from microalgae, with particular emphasis on the extraction and conversion of the oils obtained into biodiesel. Furthermore, in order to develop new processes associated with the major challenge of transforming CO₂ into added value products, five collaborations have been established with universities, technology centers and companies. The electrical mobility activity has focused on electrical charging systems for vehicles and the development of a technological strategy for energy storage. Finally, the renewable power generation activity has focused on the selection of marine and geothermal energy technologies, leading to the company's participation in the second offshore floating wind power project to be implemented in the world at demonstration scale.

Technology prospecting studies

In order to achieve a future with energy sustainability, we must overcome ambitious technological barriers to arrive at new and better solutions, as well as analyze the potential impacts of social events, scientific findings and the evolution of natural resources. Repsol prepares systematic prospecting studies to visualize future scenarios and, in relation to these, identify opportunities arising from the long-term evolution of technologies in the energy and petrochemical sectors.

These include studies on the general evolution of energy-related technologies, the feasibility of flexible bio-refining based on biomass availability and process efficiency, photovoltaic solar generation, renewable power storage and refining scenarios for 2030. Repsol employs these studies to gain an outlook on the future and guide its technology investment portfolio.

Patent policy

Fully aware of the huge importance and value of research and development work, Repsol is committed to the protection of the results of this work. In 2012, in addition to those already mentioned, patent applications were filed for inventions in different areas, such as a catalyst for sulfur plants, the modification of a catalytic reforming unit for the production of middle distillates using an olefin stream and another aromatic stream or direct distillation, aromatic alkenyl copolymers and hydrogenated dienes containing comonomers with silyl hydride units and their functionalized analogues, and recovery of molybdenum and benzoic acid.

Corporate Responsibility

As an energy company that contributes to sustainable development, Repsol must be prepared to understand the expectations of its stakeholders. This is only possible through a corporate responsibility model that integrates these expectations in all internal decision-making processes.

After the final definition of Repsol's Corporate Responsibility model and the implementation of a corporate responsibility coordination system at company and national level with the creation of the Corporate Responsibility Committees, during 2012 work continued on the deployment of the system at operational center level. During the year we developed a common methodology for identifying stakeholders' expectations and integrating them into the company's decision-making process at the main production centers in order to implement performance boosting initiatives.

As a result of these processes, in 2012 a special effort was made to meet the expectations of stakeholders in Repsol's ethical, social and environmental performance. To this end, in 2012 corporate and national expectations studies were developed, taking into account all the interested parties. Repsol compiled national studies in four countries addressed at employees, the value chain, government agencies, the media, the local community and civil society. In 2012 the third corporate sustainability plan was approved with a horizon of 2013. In addition the first national sustainability plans were approved and released in four countries: Spain, Bolivia, Ecuador and Peru. Through these plans, actions have been defined that will be developed over the next two years to bring the company's performance up to the expectations of its stakeholders. Through its sustainability plans Repsol has publicly committed to a total of 278 short to medium term actions, 80% of these relating to variable compensation of employees.

As part of its commitment to transparency, during 2012 Repsol organized the first visit by members of civil society to one of its main oil production operations in Ecuador.

Each year the company publishes its Corporate Responsibility Report, in which accounts for its annual performance and its ethical, social and environmental progress. However, Repsol understands that there are specific issues related to its activities and operations that are of particular local community interest, and therefore in 2012 it also published, for the fourth consecutive year, the Repsol Ecuador Corporate Responsibility Report and, for the first time, the Repsol Peru Corporate Responsibility Report. Like the corporate report, both publications adhere to the standards of the Global Reporting Initiative (GRI). The company also presented the Progress Report of the United Nations Global Compact, showing an advanced level of application and reinforcing the commitment to this initiative that Repsol has supported since 2003.

During 2012 work continued on integrating the United Nations "Protect, Respect and Remedy" framework and the guiding principles for companies and human rights. In this sense, Repsol prepared its draft Policy on Human Rights, which has been submitted for comments to external organizations. The company has set the goal of adopting this policy in 2013. A human rights course was also developed to explain this commitment, the framework on which it is based and how it is being implemented for all Repsol's employees. This course began with a pilot test staged for more than 400 company employees and will be extended to other areas and businesses in forthcoming years.

Repsol believes that the appropriate management of revenues from extractive activities, wherever it operates, should have a positive impact on local economies. For this reason, the company is a founding partner of the Extractive Industry Transparency Initiative that promotes the transparency of financial reports among extractive industry companies (mining, oil and gas) to avoid corruption, social injustice and conflicts.

Yet another year, the company's performance in corporate responsibility matters was recognized and continued to be a part of the following prestigious sustainability indexes: FTSE4Good, Ethibel Sustainability and Dow Jones Sustainability. In this last award, for the second consecutive year, Repsol achieved the maximum rating, becoming the industry leader. Thanks to all this, the company again received the "Gold Class" company rating, according to the Sustainability Yearbook 2012, which recognizes companies with the best sustainability performance.

Repsol's presence in international sustainability indexes is proof of its strong commitment to ethical, environmental and social values as part of its corporate culture. In turn, it is a recognition of the company's commitment to transparency and corporate responsibility.

In 2012, Repsol, the Repsol Foundation and the Ayuda en Acción [Action Aid] Foundation signed a collaboration agreement. One of the planned actions is the sale of fair trade products supplied by Ayuda en Acción in the network of service stations in Spain. This joint initiative will also be an opportunity to share acquired knowledge and experience on the reality of the communities and environments in which the company operates, and thus define cooperation projects that will generate benefits for these communities.

Fundación Repsol (Repsol Foundation)

As an expression of Repsol's social responsibility values and its voluntary commitment to the sustained improvement of society, the Repsol Foundation channels a variety of social and cultural activities in the countries in which the company operates. In 2012, this commitment was reinforced through activities in the field of social action, energy and the environment, integration and the dissemination of art, science and culture.

The Entrepreneurs Fund, launched in 2011 to promote and support innovative business projects in energy efficiency, closed its first call for proposals with over 400 applications. The seven business projects selected, which were submitted in June 2012, are in their incubation phase of development. Their scope ranges from power generation to distribution and end use. These projects include technological, business and legal consulting and financial support of between €6,000 and €12,000 per month during the necessary period for their development along with access to Repsol's industrial infrastructure. Subsequently, contacts will be facilitated with potential investors to put the projects on the market.

The second proposal call for the Entrepreneurs Fund, opened on June 16 and closed on November 16. A total of 479 applications were received, 95% from Spain.

The Foundation maintains its objective of contributing to a more sustainable, efficient and competitive energy model. Within its Energy Observatory framework, the Foundation pursued its studies and publications, updating the Repsol Energy Efficiency and Greenhouse Gases Emission (GHC) indexes, which analyze the whole energy life cycle using internal indexes and from well to pump. In addition, for the first time, the 2012 edition of the study included 2020 projections for the evolution of energy consumption in Spain and internal rates of efficiency and emissions levels. With this study, the Repsol Foundation offers a tool for the analysis, evaluation and monitoring of policies aimed both at improving energy efficiency and the reduction of greenhouse gas emissions.

The Repsol Foundation also works to promote and spread scientific knowledge among young people. To this end, the Education Project in Technical Creativity was launched in cooperation with the "Fundación Educativa Universidad de Padres" (Parents' University Education Foundation). Its aim, through the monthly publication of the "Energía Creadora" (Creative Energy) magazine, is to help spark interest in science and technology as the foundation for scientific and technological progress and encourage young people to investigate and innovate. Under in this framework the Foundation also published the white paper *How to build a culture of excellence, innovation and entrepreneurship. A social action pedagogy*.

Also, from September 25 to November 7, 2012, scientific workshops were organized with Repsol's Industrial Complex in Puertollano (Spain) which invited more than 1,500 students to learn about the importance of energy saving and efficiency and introduced them to the world of chemistry.

Another educational initiative was aimed at children and families through sustainable energy workshops developed in cooperation with the Spanish National Library.

In line with its commitment to meeting the new training demand, the Foundation continued its scholarship program in collaboration with Petronor as well as the A Coruña and Tarragona refineries (Spain). The scholarship program aims to promote Vocational Training in the speci-

alities most required by the company and provide professional employment opportunities among young people.

At university level, highlights include the programs at the Universidad Rovira i Virgili in Tarragona and the Universidad Politécnica in Cartagena to facilitate university access to students with economic and/or social difficulties and a good academic record.

In the 2011-2012 academic year, the Foundation granted more than €347,000 in training scholarships, benefiting more than 160 students.

The integration of people with disabilities is one of Repsol Foundation's main priorities. In this area it conducts social, cultural and sports programs that contribute to equal opportunities and the full integration of the disabled collective. An amount of 207 actions were performed in 2012, directly benefiting more than 41,700 people.

As part of the "Recapacita" project, an initiative to raise awareness about the difficulties that members of this collective face in their daily lives, the Games for Integration were held in Tarragona, Madrid, Cartagena and Puertollano, with the participation of 17,000 people. The project aims to promote integration through sport and highlight the importance of the equal opportunities values transmitted through competition.

Also noteworthy is the program *Your Education has no limits. Develop your Future*. Conducted in conjunction with the ONCE Foundation, the program's purpose is to increase the presence of students with disabilities in universities. In 2012 four special awareness days were held in Tarragona, Puertollano, A Coruña and Cartagena.

Another highlight is the creation of the Telefónica-Fundación Repsol Chair of Family and Disability at the Universidad Pontificia in Comillas, in order to investigate and promote the quality of life of people with intellectual disabilities and their families, from a professional, innovative and critical perspective through social commitment.

With regard to Volunteering, in 2012 the Foundation increased the number of activities, from environmental to educational and social, that directly benefited more than 48,000 people from various groups, thanks to the cooperation of more than 1,000 volunteers. Furthermore, the Foundation took part in the international volunteer project *Madrid por Madrid* (Cities of Service), also joining the *Voluntare* corporate volunteer network and *Engage*, a unique international platform providing support for companies in this area.

Beyond Spain, the Repsol Foundation has continued working in specific community development, health, education, social inclusion and opportunity-creating programs that meet the real needs of disadvantaged social groups in the communities in which the company operates.

In the field of education, in Peru programs were developed for young people with low resources and at risk of social exclusion in Pachacutec and Arequipa, providing them with access to better schooling and eventually university education.

In Bolivia, the foundation is working with the National Theatre School in order to provide comprehensive training for young people with limited resources and promote the spread of theatre in the country.

Specific programs have been undertaken to address health problems identified in each of the countries:

- Improving visual health in Bolivia and Peru.
- Equipment and improvement of the health infrastructure at the San José Obrero Hospital in Portachuelo, Bolivia.
- Hearing health in Morocco.
- Promotion of food and nutrition safety in Peru to reduce anemia in children under five and their mothers.
- Care for children in extreme poverty at the Colombian Comprehensive Child Development Center and training for adolescent mothers.
- HIV/AIDS prevention program and organ donation and transplant program in Trinidad and Tobago.

The Foundation brings citizens closer to culture, music, literature and the arts through various activities and partnerships. It also takes part in cooperation agreements and is involved in institutions such as the Circle of Friends of the Cervantes Institute and the Foundation Friends of the National Library of Spain, contributing to the important task of disseminating Spanish culture.

In 2012, the work of the Repsol Foundation was recognized, in different areas, with several awards. The COCEMFE Award in the category of "Best company" for its work towards the integration of people with disabilities, the Bobath Foundation award, for its work in the integration of people with cerebral palsy, the El Vigía group award, for best corporate social responsibility initiative of the year, or the award from the Association of Young Entrepreneurs of Madrid, in recognition of the Foundation's work to promote and support the development of the best business projects through the Fund for Entrepreneurs.

Repsol Ecuador Foundation

During 2012 five new projects were supported as a result of the 2011 call for funding proposals:

1. "Enterprising education for the progress of my region", implemented by the Junior Achievement Foundation.

Within the community development and support framework program conducted by Repsol in Ecuador, there are settlements in the Ecuadorean Amazon located in the area directly affected by the route of the SPF-OCP pipeline, known as right of way, which have benefited from several social initiatives.

With the support of Repsol Ecuador Foundation, one of the priorities identified within these communities involves training and educational initiatives. The project has been developed from a strategic partnership between Repsol Ecuador Foundation, OCP Ecuador and the October 29 Savings and Credit Cooperative, through the Junior Achievement Foundation. In general terms, the project includes training for teachers and students, and the development of educational incentives.

2. Strengthening for women's and youth organizations in Sucumbíos, implemented by the Foundation Integral Development for the Future - FUDEN.

The project involves 500 women and young people from the districts of Lago Agrio and Sucumbios in the Ecuadorean Amazon, in productive and organizational development processes to enhance their skills and improve their quality of domestic and community life. In addition, it creates and strengthens microenterprise initiatives led by women and young people, and promotes employment according to social sustainability, economic, food security and environmental conservation criteria.

As a result of this process, 400 women and young people are participating in 125 ventures, and now have an economic activity. The main areas of work are fish farming, raising pigs, cows or chickens, arts and crafts, baking and service activities such as food stalls and tourism, among others.

The project's chief priority is supporting the development of indigenous and mestizo communities located in areas of indirect influence of Block 16, where Repsol Ecuador operates.

3. Further emphasis on financial services in rural areas of Orellana and Sucumbios province as an alternative for productive development.

This project, funded by the Repsol Ecuador Foundation and executed by the Rural Financial Network, consists in introducing integrated financial products and services in rural and marginal urban areas of Eastern Ecuador. The partners in this project are Cooperativa Coca and the Microenterprise Development Fund (FODEMI) with procedures for strengthening and implementing services for the residents in the area.

Upon completion of the initiative it is estimated that about 10,000 entrepreneurs or micro-entrepreneurs will have access to financial services. Economies of scale are also expected to be generated in the area, which will benefit about 30,000 people between the families of entrepreneurs and other players in the local economy.

4. Promotion and protection of local culture as an educational tool for human development.

This project involves the local government of Francisco de Orellana and the Alejandro Labaka Foundation, with the Vicariate of Aguarico and support from Repsol Ecuador in the framework of the project to promote and defend local culture as a development tool, together with the Basque Government, with the support of the Ecuadorean National Institute of Cultural Heritage.

5. Popular finance for entrepreneurs women in Sucumbíos and Orellana, conducted by the Grameen Amazonas Savings and Credit Cooperative.

This project attempts to further improve the socio-economic conditions of women in rural and marginal urban areas in the provinces of Sucumbíos and Orellana, in the Ecuadorean Amazon, providing access to popular financial services that allow them to start and maintain small income-generating ventures for themselves and their families.

Safety and environment

For Repsol, attention to safety and the environment plays a central role in managing its activities. The company's principles for safety and the environment are defined in its Safety, Health and Environment Policy which is applicable in all its activities. In the policy, the company pledges to conduct its activities while considering the following to be essential values: safety, people's health and protecting the environment.

Additionally, safety is one of the company's fundamental and unwavering ethics that should guide all actions and commitments.

The basis for safety and environmental management is the management system. This system is comprised of a body of regulations, procedures, technical guidelines and management tools that are applicable in all company activities. They are being continuously updated to be adapted to the sector's best practices.

The Executive Committee establishes the safety and environmental objectives and strategic guidelines. These are the basis for drawing up objectives and plans of action for all of the company businesses. These plans consider the necessary actions for the continuous improvement of management, investments and associated expenses and the adaptations to new legislative requirements.

Additionally, the duties of the Board of Directors' Audit and Control Committee include learning and orienting the company's safety and environmental policy, directives and objectives.

Repsol's 2012 Corporate Responsibility Report lists the most notable actions carried out during the financial year to improve safety and to protect and conserve the environment. It also includes the development of the most relevant indicators.

Safety

The frequency of accidents with doctor's note included (company personnel plus contractor) decreased by 16% with respect to the previous year, thus meeting the annual objective set. This objective is part of the annual objectives of the Repsol employees who have variable pay.

The goal is to achieve zero accidents in Repsol's activities. In the last five years, the frequency with doctor's note included has decreased by more than 50%. Nevertheless, during 2012, we had to lament a total of 4 fatal accidents involving contractor personnel during the activities (3 of those deaths occurred in traffic accidents).

The safety management system is aligned with international standard OHSAS 18001 (Occupational Health and Safety Management System). Repsol encourages progressive certification of company centers according to that standard as a way to promote continuous improvement and obtain external validation of management systems. Currently, all the refineries and chemical plants, practically all lubricant and specialty facilities, several exploration and production facilities and a growing number of facilities for other activities are certified (the certified centers can be consulted at www.repsol.com).

Notable safety management milestones achieved in new projects include the project to expand the refinery in Cartagena, which has posed a major challenge for the company due to its scale. The largest-ever industrial investment in Spain has been carried out in an attempt to make Cartagena one of the best refineries in the world in terms of production technology, environmental sustainability, and employee safety. The accident rate for the whole expansion process was one-fiftieth of the average for the Spanish construction sector, even if we include the industrial installation process, with specific risks during the testing and start-up of equipment. Overall, in the five years the project has been in progress and among the close to 20,000 persons who have worked on it, only minor injuries have been sustained on the site, such as twists and sprains.

Also noteworthy were the tasks performed for the completion of this project during the commissioning and implementation stages of, which owing to its unusual characteristics demanded a rigorous approach to safety aspects. The result of this effort can be considered a success in which more than 1,500 people (including company employees and outsourced personnel) completed the commissioning tasks, after more than 1.5 million hours, without having to regret any serious accidents. The keys to this process were appropriate staffing levels, optimal training and painstaking thoroughness.

Environment

The environmental management system is aligned with the international standard ISO 14001. Repsol encourages progressive certification of company centers according to that standard as a way to promote continuous improvement and obtain external validation of management systems. Currently, all the refineries and chemical plants, all lubricant and specialty facilities, practically all exploration and production facilities and a growing number of facilities for other activities are certified (all the certified centers can be consulted at www.repsol.com).

During 2012 significant environmental investments were made that were aimed at improving the environmental quality of petroleum products, minimizing air emissions, increasing energy efficiency, optimizing water consumption, reducing the contaminating load of dumps and improving spill prevention systems. All of this was done by applying the available best practices and technological innovation. Also of note is the effort undertaken to identify, evaluate and correct the possible past contamination situations. In Note 36 of the Consolidated Financial Statements, information on assets, provisions, expenses and future actions of an environmental nature is listed.

From an environmental perspective, the new facilities at the Cartagena refinery produce clean fuel for transport, promoting the use of biofuels and maximizing energy efficiency in the production process. The new industrial complex in Cartagena is already a world leader in environmental sustainability, safety and energy efficiency. A new cogeneration facility will be joined by wastewater and sulfur recovery plants, which easily meet the most significant environmental requirements.

Repsol's commitment to the environment, which comprises one of the basic principles of the company, has also been apparent in all phases of the project to build the main offices of the company, known as Campus Repsol. LEED® environmental certification has been chosen to independently and externally validate compliance with the most highly-regarded standards for sustainability in construction. This certification, which is endorsed by the United States Green Building Council, analyses the whole life cycle of the building and is the most widely recognized international certification.

In addition, Repsol was recognized by Newsweek magazine as the company with the best environmental performance in the energy sector in Green Ranking 2012. This ranking assesses the environmental practices of the 500 major companies traded worldwide, considering three categories: environmental impacts, the environmental management system and transparency in the environmental report. This year, the company's transparency was quite positively evaluated in the report on environmental issues. Moreover, it was highly evaluated in the environmental management system category. That was because of the programs, initiatives and certifications implemented in the entire organization to meet the commitments set forth in the Safety, Health and Environment Policy.

This recognition is the result of the company's joint effort to improve its environmental performance, and it shows Repsol's commitment as a leader and benchmark for transparency in its sector.

Safety during offshore operations

Repsol has experience in offshore operations and it has performed deepwater operations both in the Gulf of Mexico and Brazil, and in other parts of the world.

Repsol is an active member of the Oil and Gas Producers Association (OGP), the umbrella organization for companies producing oil and gas for the promotion of safe and sustainable operations. In order to ensure that lessons learned from industry accidents are implemented in offshore operations around the world, this organization issued a series of recommendations that are consistently applied in the company's drilling projects.

These recommendations improve the spill prevention and response capabilities of offshore drilling operations and among the key issues included in these recommendations and adopted by the company the following aspects can be highlighted:

- Introduction of review and project management processes (Comprehensive Project Management), peer review, equipment integrity audits, internal and external management systems audits.
- Risk management during all phases of drilling projects, conducting qualitative and quantitative analysis studies in accordance with the company's internal regulations.

- Skills evaluations to ensure individuals and teams have the ability to understand and manage risks. Performing staff competency assessments, especially in cases of people responsible for critical safety and environment elements.
- Application of international standards and best practices to ensure that the most up-to-date standards are applied in Repsol's projects.
- Application of the double barrier approach in the design of production wells to prevent the spilling of oil or other fluids into the environment.
- Emergency response, strengthening the implementation of the company's emergency response procedures and plans at different levels (local, regional and international emergencies).
- Spill response integrated into emergency response procedures, defining potential spill scenarios for each offshore well and developing the corresponding control plans. In addition, Repsol is a member of Oil Spill Response (OSR), an international organization formed by oil operators, specialized in the prevention and control of oil spills and providing relevant technical assistance.

Sustainable energy and climate change

Repsol is committed to building a better future through smart energy initiatives; offering the best energy solutions to society and the planet. This means using a wide variety of sources and optimizing their use through energy management systems to achieve excellent energy performance. This commitment by Repsol is reflected in the updated Corporate Global Carbon Strategy for 2012-2020 which aims to boost the company's vision of a more diversified and less carbon intensive energy supply. The Carbon Strategy's end goal is to have a common method of acting that harmonizes the existing initiatives and detects synergies with an integrated focus.

This strategy is founded on intelligent risk management, following the path to excellence by reducing the carbon footprint throughout the value chain and preparing for the future with the development of non-fossil energy initiatives.

Repsol's Management Committee is in charge of approving the company's Carbon Strategy as well as evaluating its implementation. This strategy is reviewed annually in order to stay at the forefront. Additionally, since 2005, the duties of the Board of Directors' Audit and Control Committee include learning and orienting the company's safety and environmental policy, directives and objectives including climate change aspects.

Repsol has set a strategic objective of reducing 2.5 million tons of equivalent CO₂ during the 2005-2013 period. This is displayed in annual reduction objectives with respect to a *business as usual* scenario. They are approved by the company's Management Committee. They are part of the annual objectives for most of the Repsol employees who receive goal-oriented variable pay. A reduction of more than 370,000 tons of equivalent CO₂ was brought about in 2012 through specific energy savings actions. The cumulative decrease as a result of all the actions taken in the period 2006-2012 amounts to more than 2.5 million tons of CO₂ equivalent, thus fulfilling the strategic goal set for the period 2005-2013.

One of the main strategic objectives in energy terms is the implementation of an Energy Management System based on continuous improvement. These systems favor a comprehensive and systematic management approach, promoting cost savings and affirming the company's commitment to supplying sustainable energy. Within this system, Repsol has pinpointed a number of priorities that shape its long-term energy strategy. It is essential to identify and continuously update the existing savings potential of the company to establish quantified energy efficiency targets, and ensure the consistency of these objectives with the long-term goals defined in the company's carbon strategy.

Repsol's Energy Management System is implemented according to the requirements of International Standard ISO 50001. This standard enables procedures and systems to be established that improve the energy performance of organizations. This leads to a reduction in emissions of greenhouse gases and other environmental impacts, at the same time reducing energy costs.

This effort to surpass our targets is already bearing its fruits. Firstly, the introduction of these systems enable the company to measure and monitor the effectiveness of all the energy-saving actions conducted; the improvement in the Energy Savings Index demonstrates our ability to save energy while maintaining excellence performance levels. Secondly, the gradual certification

of the Energy Management Systems in the various units according to international standard ISO 50001, as in the case of the A Coruña refinery in 2011, shows the company's commitment to efficient energy management with third parties. In accordance with expectations, the Puertollano refinery achieved ISO 50001 certification in 2012.

Repsol aims to compile a company-wide footprint which implies expanding the scope of emission inventories to include its suppliers, customers and own activities. In 2012 progress was made in CO₂ emissions inventories, verifying more than 90% of these emissions according to international standard ISO 14064.

Repsol is the leading company in the energy sector in terms of carbon management performance, according to the global index of the Climate Disclosure Project. This is the third time in five years that the company has been recognized for its carbon management and energy efficiency efforts, and in the past five years Repsol has been the company with the greatest presence in the Climate Disclosure Leadership Index (CDLI), the most prestigious international climate change benchmark. The management of risks and opportunities associated with climate change, improving energy efficiency, and the development of greenhouse gas emissions inventories, are some of the aspects for which the company has received recognition.

Communication

Repsol believes that communication is a key element in its relationship with society, and, in order to adequately manage it, makes available to its main stakeholders various online and offline tools with which to report effectively and transparently on its activities and businesses. The current context is marked by a shift of audiences to digital media and a proliferation of new Internet leads, although the press and news agencies maintain their position as generators of influence and opinion. Users tend to seek their own information sources and the traditional news cycle is vanishing owing to new social network channels. In this context, Repsol is betting on a communications strategy that is based on proximity, truthfulness and speed as the main principles of its Communications Executive Managing division.

Shareholders and investors

These groups have numerous means at their disposal to access the company's financial and operating information and facts that may affect the value of their shares. Since it became a listed company in 1989, Repsol has maintained an Investor Information Bureau (acronym in Spanish, OIA) and an Investor Relations Management, through which it serves its investors, both current and prospective, and securities analysts, for both variable and fixed rate offerings. In recent years, analyst coverage of the company has greatly increased, reaching a total of 40 active followers of the company's evolution.

In order to satisfy its minority shareholders' information needs, Repsol has the OIA service. Shareholders can personally visit the bureau, call the free line 900 100 100 or write via regular post or email, in order to obtain any information required. The OIA answered some 45,000 calls in 2012 (an average of 170 per day). The most frequent questions concerned share values, the General Shareholders' Meeting, dividend payment policies and dates, the evolution of preference shares and relevant company facts.

Moreover, all the relevant information can be found on the corporate website (www.repsol.com), as well as specific contents in the "Shareholders and investors" section. This section had more than 390,000 visits in 2012. The website also includes a number of email addresses (the generic address is infoaccionistas@repsol.com), to which inquiries can be addressed and at which publications can be requested. In 2012 these mailboxes received over 6,000 emails.

The Investor Relations Management also constantly communicates with institutional investors and financial analysts. Throughout the year several *roadshows* (visits to different cities to visit institutional investors) were held in Europe, America and Asia, with the participation of senior executives, and members of the Investor Relations team. We visited a total of 488 institutional investors in 34 different cities worldwide. Moreover, Repsol attended 22 sector conferences, both in Europe and in the United States, during which meetings with institutional investors were also set up. If these visits are added to the investors we received at the company's offices, this makes a total of approximately 900 institutional investors contacted during 2012.

Additionally in 2012, in an effort to update access to company information for the financial community, an application was developed for shareholders and investors to consult information using mobile devices (tablets and smartphones). This application can be downloaded for free on Repsol's website.

Media

The aim of the Communication and Chairman's Office Executive Managing division is to serve the media under the principles of transparency, proximity, rigor and truthfulness. To this end, Repsol has various channels through which it manages information requests from the media.

The main activities of the Repsol Group in 2012 were made known to the media through some 60 press releases, all of which are available in the corporate website Press Room (www.repsol.com). The more than 70 press releases issued by the five industrial facilities in Spain, those issued in countries where the company operated, those pertaining to sports sponsorship projects, and those relative to specific businesses, such as liquated petroleum gas (LPG) or the Repsol Foundation, should also be taken into account.

In order to maintain a close relationship with communications media, in 2012 a number of press conferences and information sessions were held. One highlight was the presentation by the president of Repsol, Antonio Brufau, of the Strategic Plan 2012-2016, which took place on May 29. Also, on April 18, media professionals attended the opening of the expansion of the Cartagena refinery at a ceremony presided by the Prince of Asturias.

The corporate website includes a Press Room where information about the Repsol Group and its activities is available to media professionals. In addition to press releases, it includes graphic and multimedia files, publications, specific dossiers and newsletters intended for journalists from all over the world.

In 2012 News was consolidated: a new tool for media relations, created in 2011 to provide Repsol stories and projects from a point of view less concerned with current events, but rather of a didactic nature. News is sent to more than 2,000 journalists and has been warmly received by them.

During the year the well-known book *How the Energy Industry Works* was again translated into Spanish and distributed among journalists, institutions, universities and associations, as well as in Repsol offices all over the world. It is an educational work, and thus comprises an everyday tool for anyone who is not an energy expert.

In order to respond to journalists' requests for information, the Communications Executive Managing division makes available to them an email address (prensa@repsol.com), through which more than 4,000 inquiries and requests for information were received in 2012. This figure demonstrates the high media interest in Repsol activities. By means of this channel, the company answers, on a daily basis, quickly and effectively, to the many requests from the media.

This communication effort has allowed Repsol to be the best-regarded company in the energy sector by journalists, according to the Ipsos Public Affairs study performed in the last quarter of the year to measure the corporate reputation of major Spanish companies.

Looking ahead, the challenges of communication will revolve around new forms of communication, the mass dissemination of content through multiple globally-driven channels, the need for integrated communication strategies –and at the same time specific strategies for each support– the growing importance of news monitoring and analysis, and the growing demand for in-house materials such as computer graphics, reports and videos.

Repsol on the Internet

2012 was a year of progress in digital communications for the company. The generation of content in multiple formats and for all devices and the optimization of the users' experience, were consolidated as the main guidelines for each of Repsol's actions in the digital environment.

One remarkable milestone was the major renovation of the corporate website. This began with a complete overhaul of the home page, allowing the effective presentation of the company thanks to a clear information hierarchy. The design has taken into consideration the perspective of the many types of users visiting the website and who expect to access information quickly and simply.

Coinciding with the presentation of the Strategic Plan 2012-2016, which accompanied the company's new vision and brand change, in May 2012 there was a profound renewal of the repsol.com portal. Changes were made from a design point of view, adjusting the layout to the new identity, and from a content viewpoint - including information to help communicate the strategic plan and new vision. Another milestone in 2012 was adaptation of all content related to YPF after the expropriation, especially regarding the company's global presence, financial information and commercial offer.

The introduction of a new Products and Services channel is another achievement for the year. This is a radical change that boosts the communication of the products and services provided by Repsol. Thanks to its segmented profiles it allows current and potential customers easily and intuitively to access content designed exclusively for them. Engaging content that brings customers closer to the company's commitment to innovation, quality, customer service and the environment.

One highlight is the area of themed content with the consolidation of the trust and empathy relations generated by the Repsol Guide and Repsol Racing channels thanks to the interaction with users and the creation of interesting, engaging and fun content. With over 146,000 followers on the major social networks: Facebook, Twitter, Google+, Flickr, YouTube, Instagram and Pinterest, the channels Guía Repsol and Box Repsol reaffirm their Internet standing and demonstrate Repsol's increasing commitment to be close to its audiences, listen to them and offer quality services .

Not forgetting the company's commitment to have a global presence in the multiple devices on the market. In 2012, the Wines and Restaurants applications in the Repsol Guide, were joined by three new apps: Box Repsol, for fans of the racing world, Copilot, as travelling companion, and Investor Relations for the investing public. Furthermore, the Repsol Guide was one of the applications available at the worldwide launch of Windows 8.

Accordingly, thanks to its untiring work in the dynamic digital environment, repsol.com remains a leader in digital communications and continues to consolidate itself as means of corporate communication, with an average monthly audience of 2 million unique users, 3,5 million visits and 37 million page views.

Intangible assets management

The balance of the factors that drive the success of a company has changed significantly from what it was in the past. Before, good financial results were enough to ensure success. Today, economic performance depends heavily on winning the trust of the organizations most significant stakeholders.

In this context, building trust involves having strong and differentiated brands, capable of meeting the stakeholders' expectations through excellent corporate conduct and timely and relevant communications. The brand is a promise made to those stakeholders, who will validate it with their experience. Reputation is the value judgment they have in the company. A good reputation will produce greater willingness and recommendations to invest in, work with and use the company's products and services.

For these reasons, one of Repsol's priorities is the professional management of both these intangible assets: brand and reputation. This task falls to the Intangible Assets division, with the main objective of integrating the sensitive social context with the company's business and communications activities to achieve the strategic targets established.

In 2012 Repsol presented its new vision, the result of a rigorous and participatory process that defined how it wanted the company to be and how it wanted to be recognized. This statement reflects the change that was already under way and, in turn, sets the path for its future as an organization.

The new vision and values that underpin Repsol's position are the foundation for its recognition model and action plan for reputation management.

Repsol is a company at the forefront of managing this intangible asset, recognized as the company with the third-best reputation in Spain by the prestigious Spanish Corporate Reputation Monitor (MERCO).

As a founding sponsor of the Corporate Excellence Foundation: Center for Reputation Leadership, Repsol is part of a think tank focused on the awareness of major themes and advances in reputation management. The foundation brings together large Spanish companies to exchange ideas, learning and best practices.

In line with the most advanced international companies, this management is seen from a three-tier perspective: top management as the main driver, a specialized division for reputation management and cross-cutting scope as a prerequisite for success.

Repsol's Reputation unit addresses the most important aspects of reputation management: understanding the social context (off and online), metrics, reputational risks, recognition boosting and communication.

Another key component in the Repsol's cultural change process, emerging from its new rationale, is the revitalization of the company's brand and visual identity systems.

With this new vision as a departure point and with the participation of its business and corporate areas, the Branding Plan that started in 2011 has led to the optimization of the logo and the enhancement of the different elements of identity.

In 2012 the new brand and visual identity was launched and deployment has started in the service station network, products, buildings and all the company's areas worldwide.

One of the most visible applications is Repsol's new corporate headquarters in Madrid, that offers a new way to relate with the brand. The keys to this new brand strategy are implicit in throughout the entire design and construction process. The new brand is embodied in each of the four buildings that make up the compound, where the four corporate colors are applied and give their names to each of the buildings.

Sports sponsorship

For yet another year, Repsol has been the main protagonist of Motorcycle World Championship, the most demanding international motorsports event which is the best testing ground for Repsol's fuels and lubricants. It is precisely the experience acquired in the development of specific products for top competitions that enables Repsol to remain a leader in research and thus be capable of fulfilling its customers' highest expectations.

Great results were achieved in the 2012 season thanks to the performance of the Repsol riders who participated in numerous international competitions. In MotoGP, the Repsol Honda Team was the team World Champion. Dani Pedrosa, in what was his best year, was second in this category and Casey Stoner came third overall. The Repsol team completed a brilliant season: its drivers reached the podium in 12 of the 18 races.

In the Moto2 class, Marc Márquez managed to win the championship. His presence, beside Dani Pedrosa on the Repsol Honda team in MotoGP for the 2013 season will be a clear guarantee of the company's sponsorship success.

In the Moto3 category, Alex Rins was the best rookie in his class and the rest of our young riders finished in the top 10, excelling in many World Championship races.

As part of its objective to promote grassroots sport, Repsol cosponsored the Campeonato de España de Velocidad (CEV), where a very young rider, Alex Márquez, sponsored by Repsol, was proclaimed champion.

Repsol won the Trial Indoor and Outdoor World Championship in the men's category for another year. Toni Bou has won eleven World Championships and became, at the age of 27, the most successful rider in the history of this specialty sport.

Repsol is a company committed to Olympic sports through its collaboration with the ADO plan, which helps many young sportspeople to live the dream of taking part in the Olympic Games. London 2012 reflected the good level of Spanish sport.

Repsol also has a training sponsorship program. Through this program it seeks to support youth education through scholarships for mechanical and engineering studies at the Monlau Competition school.

For the second year running, sponsorship was given to the Repsol aerobatics team, which became Spanish champion and took part in several national and international air shows, one of them on the occasion of the opening of the expansion at the Cartagena refinery.

Support also continued for the classic car team, the Repsol Classic Team.

Repsol's new headquarters

The construction of the new Repsol headquarters concluded in May 2012. This was followed by the relocation of 3,800 people who were previously distributed in eleven separate buildings in Madrid, which took four months.

Campus Repsol is, from the design phase of the project, a benchmark in sustainability and accessibility that reflects Repsol's culture and values and is an example of the spirit of excellence and commitment to serve. The new headquarters reflects the company's unique culture: the vocation to becoming a global company that seeks individual welfare and believes in the construction of a better future through the development of intelligent energy.

Its design, with an exterior steel framework structure, allows uninterrupted indoor spaces in which to work better and more efficiently. The central green space provides contact with nature and facilitates communication between all the company's areas, while helping to create a workspace that encourages integration and coexistence.

The building is a pioneer in terms of sustainability, as evidenced by the LEED certification from the Green Building Council.

From the outset, the project was designed with people in mind. During the construction phase, the frequency rate of accidents with medical leave was 5.5. This is ten times less than the industry average and marks another milestone in the construction field in Spain.

The new Repsol headquarters has a ground floor plus four office and service floors. The project comprises more than 5,000 square meters, which provide various services for employees. It also has two underground floors and parking facilities for up to 1,800 vehicles, 200 motorcycles and as many bicycles. The buildings form a cloister with a central garden of nearly 11,000 square meters. In addition, a new green area for the public has been created in the business campus perimeter.

For the first time in the history of Repsol, all the business areas are working together in one space, creating synergies in an architectural and landscaping environment that encourages a teamwork culture.

Finally, on January 31, 2013 the Campus Repsol was officially opened by the Prince of Asturias.