

REPSOL Group

2018 Alternative
Performance
Measures
reconciliations
1st Half
and 2nd Quarter
2018

*Translation of a report
originally issued in Spanish.
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ALTERNATIVE PERFORMANCE MEASURES

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

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

1. Financial performance measures

Adjusted net income

<i>Million euros</i>	First half ⁽³⁾											
	Adjusted Result		ADJUSTMENTS								EU-IFRS profit/loss	
			Joint venture reclassification		Special items		Inventory effect ⁽²⁾		Total Adjustments			
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income	2,043 ⁽¹⁾	1,613 ⁽¹⁾	(286)	(221)	(242)	(49)	282	(86)	(246)	(356)	1,797	1,257
Financial result	(175)	(229)	60	39	146	5	-	-	206	44	31	(185)
Net income from equity affiliates using the equity method	21	24	172	88	-	-	-	-	172	88	193	112
Earnings before tax	1,889	1,408	(54)	(94)	(96)	(44)	282	(86)	132	(224)	2,021	1,184
Income tax	(746)	(376)	54	94	(104)	34	(72)	22	(122)	150	(868)	(226)
Profit from continuing operations	1,143	1,032	-	-	(200)	(10)	210	(64)	10	(74)	1,153	958
Income attributed to minority interests	(11)	(17)	-	-	-	-	(8)	4	(8)	4	(19)	(13)
Net income from continuing activities attributable to the parent	1,132	1,015	-	-	(200)	(10)	202	(60)	2	(70)	1,134	945
Profit from discontinued operations	-	-	-	412	111	-	-	-	412	111	412	111
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT COMPANY	1,132	1,015	-	212	101	202	(60)	414	41	1,546	1,056	

⁽¹⁾ Income from continuing operations at current cost of supply (CCS).

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

⁽³⁾ The figures for the first half of 2017 have been restated owing to the sale of the stake in Naturgy Energy Group, S.A. (see Note 2 of the consolidated interim financial statements of the first half of 2018).

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Million euros	Second quarter ⁽³⁾											
	ADJUSTMENTS										EU-IFRS profit/loss	
	Adjusted Result		Joint venture reclassification		Special items		Inventory effect ⁽²⁾		Total Adjustments			
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	
Operating income	986 ⁽¹⁾	671 ⁽¹⁾	(106)	(96)	(173)	37	294	(199)	15	(258)	1,001	413
Financial result	(61)	(74)	20	8	153	1	-	-	173	9	112	(65)
Net income from equity affiliates using the equity method	10	11	45	21	-	-	-	-	45	21	55	32
Earnings before tax	935	608	(41)	(67)	(20)	38	294	(199)	233	(228)	1,168	380
Income tax	(380)	(154)	41	67	(148)	(23)	(75)	50	(182)	94	(562)	(60)
Profit from continuing operations	522	454	-	-	(168)	15	219	(149)	51	(134)	606	320
Income attributed to minority interests	(6)	(9)	-	-	-	-	(8)	5	(8)	5	(14)	(4)
Net income from continuing activities attributable to the parent	549	445	-	-	(168)	15	211	(144)	43	(129)	592	316
Profit from discontinued operations	-	-	-	-	344	51	-	-	344	51	344	51
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT. COMPANY	549	445	-	-	176	66	211	(144)	387	(78)	936	367

⁽¹⁾ Income from continuing operations at current cost of supply (CCS).

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⁽³⁾ The figures for the first half of 2017 have been restated owing to the sale of the stake in Naturgy Energy Group, S.A. (see Note 2 of the consolidated interim financial statements of the first half of 2018).

Special Items

€ Million	Q2		First half	
	2018	2017	2018	2017
Divestments	5	5	7	23
Workforce restructuring charges	(15)	(34)	(17)	(36)
Impairment	(121)	2	(123)	(26)
Provisions and other (1)	(37)	41	(67)	30
Interrupted operations	344	51	412	111
TOTAL	176	66	212	102

⁽¹⁾ Includes the exchange rate effect on tax positions of currency other than the functional currency.

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EBITDA:

	First half							
	Group Reporting Model		Joint venture reclassification and others		Inventory effect		IFRS-EU ⁽¹⁾	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	2,289	1,666	(858)	(642)	-	-	1,431	1,024
Downstream	1,649	1,518	(4)	(5)	-	-	1,645	1,513
Corporate and other	(127)	(76)	54	-	-	-	(73)	(76)
EBITDA	3,811	3,108	(808)	(647)	-	-	3,003	2,461
EBITDA CCS	3,529	3,194	(808)	(647)	282	(86)	3,003	2,461

⁽¹⁾ Corresponds to "Profit before tax" and "Result adjustments" on the consolidated Statement of Cash Flows prepared under IFRS-EU.

	Second quarter							
	Group Reporting Model		Joint venture reclassification and others		Inventory effect		IFRS-EU ⁽¹⁾	
	2018	2017	2018	2017	2018	2017	2018	2017
Upstream	1,188	745	(424)	(251)	-	-	764	494
Downstream	916	557	(3)	(3)	-	-	913	554
Corporate and other	(97)	(38)	41	(8)	-	-	(56)	(46)
EBITDA	2,007	1,264	(386)	(262)	-	-	1,621	1,002
EBITDA CCS	1,713	1,463	(386)	(262)	294	(199)	1,621	1,002

⁽¹⁾ Corresponds to "Profit before tax" and "Result adjustments" on the consolidated Statement of Cash Flows prepared under IFRS-EU.

ROACE:

NUMERATOR	H1 2018		H1 2017	
Operating profit EU-IFRS	1,797		1,257	
Joint Arrangements reclassification	286		221	
Income tax ⁽¹⁾	(852)		(386)	
Share of profit (loss) of entities accounted for using the equity method - net of dividends	21		24	
I. ROACE result at average weighted cost	1,252	2,752 ⁽²⁾	1,116	2,249 ⁽²⁾
DENOMINATOR (€ Million)				
Total equity	31,158		30,183	
Net financial debt	2,706		7,477	
Capital employed at year end	33,864		37,660	
II. Average capital employed ⁽³⁾	33,485		35,170	
CCS ROACE (I/II)	8.2%		6.4%	

⁽¹⁾ Does not include income tax corresponding to financial results.

⁽²⁾ This figure has been annualized by extrapolating data for the period (except for the Special Items).

⁽³⁾ Corresponds to the average balance of capital employed at the beginning and end of the period from continuing operations.

2. Cash flow measures

Free Cash Flow, Cash Generated

	First half					
	Adjusted cash flow		Joint venture reclassification and others		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities	1,726	2,175	(465)	(93)	1,261	2,082
II. Cash flows from / (used in) investing activities	2,580	(1,232)	(1,185)	114	1,395	(1,118)
Free cash flow (I+II)	4,306	943	(1,650)	21	2,656	964
Cash flow generated	3,373	272	(1,435)	447	1,938	719
III. Cash flows from / (used in) financing activities and others ⁽¹⁾	(3,215)	(919)	1,680	(15)	(1,535)	(934)
Net increase / (decrease) in cash and cash equivalents (I+II+III)	1,091	24	30	6	1,121	30
Cash and cash equivalents at the beginning of the period	4,820	4,918	(219)	(231)	4,601	4,687
Cash and cash equivalents at the end of the period	5,911	4,942	(189)	(225)	5,722	4,717

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

	Second quarter					
	Adjusted cash flow		Joint venture reclassification and others		IFRS-EU cash flow statement	
	2018	2017	2018	2017	2018	2017
I. Cash flows from / (used in) operating activities	807	1,458	(325)	(55)	482	1,403
II. Cash flows from / (used in) investing activities	3,180	(635)	(1,227)	57	1,953	(578)
Free cash flow (I+II)	3,987	823	(1,552)	2	2,435	825
Cash flow generated	3,839	688	(1,404)	254	2,435	942
III. Cash flows from / (used in) financing activities and others ⁽¹⁾	(2,122)	154	1,585	16	(537)	170
Net increase / (decrease) in cash and cash equivalents (I+II+III)	1,865	977	33	18	1,898	995
Cash and cash equivalents at the beginning of the period	4,046	3,965	(222)	(243)	3,824	3,722
Cash and cash equivalents at the end of the period	5,911	4,942	(189)	(225)	5,722	4,717

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

Liquidity

	First half					
	Group Reporting Model		Joint venture reclassification and others		IFRS-EU	
	Jun - 2018	Dec - 2017	Jun - 2018	Dec - 2017	Jun - 2018	Dec - 2017
Cash and cash equivalents	5,911	4,820	(189)	(219)	5,722	4,601
Undrawn credit lines	2,393	2,503	-	-	2,393	2,503
Cash deposits of immediate availability ⁽¹⁾	1,528	231	-	-	1,528	231
Liquidity	9,832	7,554	(189)	(219)	9,643	7,335

⁽¹⁾ Repsol contracts time deposits but with immediate availability, which are recorded in "Other current financial assets" (see section 4.2 of the interim financial statements of 2018) and that do not meet the criteria to be classified as cash and cash equivalents.

Operating Investments:

	First half					
	Operating investments		Joint venture reclassification and others		IFRS-EU ⁽¹⁾	
	2018	2017	2018	2017	2018	2017
Upstream	900	906	(130)	(189)	770	717
Downstream	325	279	1	0	326	279
Corporate and other	20	16	0	6	20	22
TOTAL	1,245	1,201	(129)	(183)	1,116	1,018

	Second quarter					
	Operating investments		Joint venture reclassification and others		IFRS-EU ⁽¹⁾	
	2018	2017	2018	2017	2018	2017
Upstream	448	468	(67)	(87)	381	381
Downstream	187	165	0	0	187	165
Corporate and other	12	11	0	6	12	17
TOTAL	647	644	(67)	(81)	580	563

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

3. Financial position indicators

Net Debt

	Net Debt			Joint venture reclassification ⁽¹⁾			Figure according to IFRS-EU balance sheet Figure according to IFRS-EU balance sheet		
	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17
Non-current assets									
Non-current financial instruments ⁽²⁾	10	360	379	1,493	1,560	692	1,503	1,920	1,071
Current assets									
Other current financial assets	1,702	254	44	(48)	3	1,187	1,654	257	1,231
Cash and cash equivalents	5,911	4,820	4,942	(189)	(219)	(225)	5,722	4,601	4,717
Non-current liabilities⁽³⁾									
Non-current financial debt	(6,468)	(7,611)	(8,831)	(2,712)	(2,469)	192	(9,180)	(10,080)	(8,639)
Current liabilities⁽³⁾									
Current financial liabilities	(4,148)	(4,160)	(4,090)	(148)	(46)	(2,719)	(4,296)	(4,206)	(6,809)
Items not included on the balance sheet									
Net mark to market valuation of financial derivatives (ex: exchange rate) ⁽⁴⁾	287	70	79	(240)	-	-	47	70	79
NET DEBT	(2,706)	(6,267)	(7,477)				(4,550)	(7,438)	(8,350)

- (1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:
June 2018: (Cash and cash equivalents of €23 million and current financial liabilities as a result of an intra-group loan of €2,733 million, less a €179 million third-party loan).
December 2017: (Cash and cash equivalents of €28 million and current financial liabilities as a result of an intra-group loan of €2,624 million, less €275 million in third-party loans)
June 2017: (Cash and cash equivalents of €17 million and current financial liabilities as a result of an intra-group loan of €2,724 million, less €368 million in third-party loans)

(2) Corresponds to the consolidated balance sheet heading, "Non-current financial assets" (but does not include available-for-sale financial assets).

(3) Does not include finance lease obligations.

(4) The net mark to market value of financial derivatives different from exchange rate derivatives has been eliminated from this section.

Gross Debt

	Net Debt			Joint venture reclassification and others			Figure according to IFRS-EU balance sheet			
	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17	Jun-18	Dec-17	Jun-17	
Current financial liabilities	(4,109)	(4,133)	(4,059)	(146)	(2,670)	(2,719)	(4,255)	(4,178)	(6,778)	
Net valuation at the market rates of financial derivative, such as current exchange rate	53	(9)	1	-	-	-	53	(9)	1	
Current gross debt	(4,056)	(4,142)	(4,058)	(146)	(2,670)	(2,719)	(4,202)	(4,187)	(6,777)	
Non-current financial liabilities	(6,415)	(7,542)	(8,752)	(2,421)	155	192	(9,127)	(10,012)	(8,560)	
Non-current gross debt	(6,415)	(7,542)	(8,752)	(2,421)	155	192	(9,127)	(10,012)	(8,560)	
TOTAL GROSS DEBT	(10,472)	(11,684)	(12,810)	(2,567)	(2,515)	(2,527)	(13,329)	(14,199)	(15,337)	

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Interest coverage

	First half					
	Group Reporting Model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2018	2017	2018	2017	2018	2017
<i>Million euros</i>						
Interest	144	183	(30)	(34)	114	149
EBITDA	3,811	3,108	(808)	(647)	3,003	2,461
Interest cover	3.8%	5.9%			3.8%	6.1%

	Second quarter					
	Group Reporting Model		Joint venture reclassification		Figure according to IFRS - EU balance sheet	
	2018	2017	2018	2017	2018	2017
<i>Million euros</i>						
Interest	72	89	(15)	(16)	58	73
EBITDA	2,007	1,264	(386)	(262)	1,621	1,002
Interest cover	3.6%	7.0%			3.6%	7.2%