Repsol, S.A. and Subsidiaries

Report on Limited Review

Interim Condensed Consolidated Financial Statements and Interim Directors' Report for the six-month period ended 30 June 2014

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

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
www.deloitte.es

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REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Repsol, S.A.:

Report on the interim condensed consolidated financial statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Repsol, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated balance sheet at 30 June 2014 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

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

Conclusion

As a result of our limited review, which under no circumstances may be considered an audit of financial statements, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2014 were not prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

Emphasis of matter paragraph

We draw attention to Note 2 to the accompanying interim condensed consolidated financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013. This matter does not affect our conclusion.

Report on other legal and regulatory requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2014 contains the explanations which the Parent's directors consider appropriate about the significant events which took place in this period and their effect on the interim financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2014. Our work was confined to checking the interim consolidated directors' 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.

Other matters paragraph

This report was prepared at the request of the Company's directors in relation to the publication of the half-yearly financial report required by Article 35 of Spanish Securities Market Law 24/1988, of 28 July, implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Javier Ares San Miguel
23 July 2014

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2014

REPSOL, S.A. and investees comprising the REPSOL Group

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

Repsol, S.A. and investees comprising the Repsol Group
Consolidated balance sheet at June 30, 2014 and December 31, 2013

		Millions of euros	
ASSETS	Note	**06/30/2014**	**12/31/2013** [(1)]
Intangible Assets:		1,694	1,729
a) Goodwill		486	490
b) Other intangible assets		1,208	1,239
Property, plant and equipment	3	15,982	16,026
Investment property		39	24
Investment accounted for using the equity method	3	10,652	10,340
Non-current assets held for sale subject to expropriation	3	-	3,625
Non-current financial assets	5	520	1,888
Deferred tax assets		4,097	4,079
Other non-current assets		119	60
NON-CURRENT ASSETS		**33,103**	**37,771**
Non current assets held for sale	3	87	1,692
Inventories		5,388	4,938
Trade and other receivables:		6,120	4,935
a) Trade receivables		3,957	3,219
b) Other receivables		1,469	1,330
c) Income tax assets		694	386
Other current assets		151	141
Other current financial assets	5	1,616	354
Cash and cash equivalents	5	6,845	5,716
CURRENT ASSETS		**20,207**	**17,776**
TOTAL ASSETS		**53,310**	**55,547**

(1) Includes the necessary modifications with respect to the consolidated financial statements for the year ended December 31, 2013 in relation to the application of IFRS 11 (see Note 2 *"Basis of presentation"*).

Notes 1 to 13 are an integral part of the consolidated balance sheet at June 30, 2014.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated balance sheet at June 30, 2014 and December 31, 2013

		Millions of euros	
LIABILITIES AND EQUITY	Note	**06/30/2014**	**12/31/2013** [(1)]
NET EQUITY			
Issued share capital	3	1,350	1,324
Share premium		6,428	6,428
Legal Reserve		259	259
Treasury shares and own equity instruments	3	(3)	(26)
Retained earnings and other reserves		19,550	19,785
Total net income attributable to the parent		1,327	195
Dividends and remunerations		(1,324)	(232)
EQUITY		**27,587**	**27,733**
Financial assets available for sale		(6)	488
Hedge transactions		(87)	(60)
Translation differences		(795)	(954)
ADJUSTMENTS FOR CHANGES IN VALUE		**(888)**	**(526)**
EQUITY ATTRIBUTABLE TO THE PARENT		**26,699**	**27,207**
MINORITY INTERESTS		**255**	**243**
TOTAL EQUITY		**26,954**	**27,450**
Grants		10	10
Non-current provisions		2,710	2,700
Non-current financial liabilities:	5	7,222	8,469
a) Bank borrowings, bonds and other securities		7,153	8,413
b) Other financial liabilities		69	56
Deferred tax liabilities		1,834	1,866
Other non-current liabilities		1,709	1,676
NON-CURRENT LIABILITIES		**13,485**	**14,721**
Liabilities related to non-current assets held for sale	3	-	1,457
Current provisions		168	249
Current financial liabilities:	5	6,206	5,833
a) Bank borrowings, bonds and other securities		6,122	5,780
b) Other financial liabilities		84	53
Trade payables and other payables:		6,497	5,837
a) Trade payables		3,046	2,588
b) Other payables		3,196	3,114
c) Current income tax liabilities		255	135
CURRENT LIABILITIES		**12,871**	**13,376**
TOTAL EQUITY AND LIABILITIES		**53,310**	**55,547**

(1) Includes the necessary modifications with respect to the consolidated financial statements for the year ended December 31, 2013 in relation to the application of IFRS 11 (see Note 2 *"Basis of presentation"*).

Notes 1 to 13 are an integral part of the consolidated balance sheet at June 30, 2014.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated income statement corresponding to the interim periods ended June 30, 2014 and 2013

	Note	06/30/2014	06/30/2013 [1]
		Millions of euros	
Sales	3	23,531	22,907
Services rendered and other income	3	178	487
Changes in inventories of finished goods and work in progress inventories		28	(297)
Income from reversal of impariment losses and gains on disposal of non-current assets		4	8
Allocation of grants on non-financial assets and other grants		-	-
Other operating income	3	515	400
OPERATING REVENUE		**24,256**	**23,505**
Supplies		(19,648)	(18,807)
Personnel expenses		(860)	(829)
Other operating expenses		(2,142)	(2,305)
Depreciation and amortization of non-current assets		(942)	(725)
Impairment losses recognised and losses on disposal of non-current assets	3	(234)	(44)
OPERATING EXPENSES		**(23,826)**	**(22,710)**
OPERATING INCOME		**430**	**795**
Finance income		65	53
Finance expenses		(322)	(368)
Changes in the fair value of financial instruments		27	49
Net exchange gains/ (losses)		72	(55)
Impairment and gains/ (losses) on disposal of financial instruments		368	76
FINANCIAL RESULT		**210**	**(245)**
Share of results of companies accounted for using the equity method-net of tax	3	679	404
NET INCOME BEFORE TAX		**1,319**	**954**
Income tax	7	(250)	(285)
Net income from continuing operations		**1,069**	**669**
Net income from continuing operations attributable to minority interests		(10)	16
NET INCOME FROM CONTINUING OPERATIONS ATTRIBUTED TO THE PARENT		**1,059**	**685**
Net income from discontinued operations after taxes		**268**	**216**
Net income from discontinued operations attributable to minority interests		-	-
NET INCOME FROM DISCONTINUED OPERATIONS ATRIBUTTABLE TO THE PARENT	3	**268**	**216**
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT		**1,327**	**901**
EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT		**Euros**	**Euros [2]**
Basic	3	0.98	0.68
Diluted	3	0.98	0.68

[1] Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses (see Note 2 *"Basis of presentation"*).

[2] Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 in connection with the paid-up capital increase carried out as part of the shareholder compensation scheme known as the "Repsol Flexible Dividend", detailed in section f) of "Equity" within Note 3.

Notes 1 to 13 are an integral part of the consolidated income statement for the six-month period ended June 30, 2014.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated statement of recognised income and expenses corresponding to the interim periods ended June 30, 2014 and 2013

	Millions of euros	
	06/30/2014	**06/30/2013 (2)**
CONSOLIDATED NET INCOME FOR THE INTERIM PERIOD (1) (from the Consolidated Income Statement)	**1,337**	**885**
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY:		
From actuarial gains and losses and other adjustments	-	-
Tax effect	-	-
Total items that will not be reclassified to the income statement	-	-
From measurement of financial assets available for sale	(224)	(1)
From measurement of other financial instruments	(42)	45
From cash flow hedges	(41)	38
Translation differences	120	59
Entities accounted for using the equity method	17	(28)
Tax effect	78	(10)
Total items that may be reclassified to the income statement	**(92)**	**103**
TOTAL	**(92)**	**103**
AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT:		
From measurement of financial assets available for sale	(452)	-
From measurement of other financial instruments	42	-
From cash flow hedges	8	1
Translation differences	(5)	94
Entities accounted for using the equity method	8	-
Tax effect	112	(2)
TOTAL	**(287)**	**93**
TOTAL RECOGNIZED INCOME/ (EXPENSES)	**958**	**1,081**
a) Attributable to the parent	947	1,096
b) Attributable to minority interests	11	(15)

(1) Corresponds to the addition of the following consolidated income statement headings: "*Net income for the period from continuing operations*" and "*Net income for the period from discontinued operations after taxes*".

(2) Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses (see Note 2 *"Basis of presentation"*).

The accompanying explanatory Notes 1 to 13 are an integral part of the consolidated statement of recognized income and expenses for the six-month period ended June 30, 2014.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated statement of changes in equity corresponding to the interim periods ended June 30, 2014 and 2013

	Equity attributable to equity holders of the parent							
	Equity							
Millions of euros	Issued share capital	Share premium and reserves	Treasury shares and own equity instruments	Total net income attributable to the parent	Adjustments for changes in value	Total equity attributable to the parent	Minority interests [1]	Total equity
Closing balance at 12/31/2012	**1,282**	**24,956**	**(1,245)**	**2,060**	**(351)**	**26,702**	**770**	**27,472**
Adjustments	-	-	-	-	-	-	(485)	(485)
Initial adjusted balance	**1,282**	**24,956**	**(1,245)**	**2,060**	**(351)**	**26,702**	**285**	**26,987**
Total recognized income/ (expense)	-	-	-	901	195	1,096	(15)	1,081
Transactions with shareholders or owners						-		-
Increase/ (decrease) of share capital	20	(20)	-	-	-	-	-	-
Dividend payments	-	(51)	-	-	-	(51)	(3)	(54)
Transactions with treasury shares or own equity instruments (net)	-	(206)	1,223	-	-	1,017	-	1,017
Changes in the scope of consolidation	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(232)	-	-	-	(232)	-	(232)
Other changes in equity						-		-
Share based payments	-	-	-	-	-	-	-	-
Transfers between equity accounts	-	2,060	-	(2,060)	-	-	-	-
Other changes	-	(7)	-	-	3	(4)	-	(4)
Closing balance at 06/30/2013	**1,302**	**26,500**	**(22)**	**901**	**(153)**	**28,528**	**267**	**28,795**
Total recognized income/ (expense)	-	(1)	-	(706)	(375)	(1,082)	(18)	(1,100)
Transactions with shareholders or owners						-		-
Increase/ (decrease) of share capital	22	(22)	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	-
Transactions with treasury shares or own equity instruments (net)	-	-	(4)	-	-	(4)	-	(4)
Changes in the scope of consolidation	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(232)	-	-	-	(232)	-	(232)
Other changes in equity						-		-
Share based payments	-	-	-	-	-	-	-	-
Transfers between equity accounts	-	-	-	-	-	-	-	-
Other changes	-	(5)	-	-	2	(3)	(6)	(9)
Closing balance at 12/31/2013	**1,324**	**26,240**	**(26)**	**195**	**(526)**	**27,207**	**243**	**27,450**
Adjustments								
Initial adjusted balance	**1,324**	**26,240**	**(26)**	**195**	**(526)**	**27,207**	**243**	**27,450**
Total recognized income/ (expense)	-	-	-	1,327	(380)	947	11	958
Transactions with shareholders or owners								
Increase/ (decrease) of share capital	26	(26)	-	-	-	-	-	-
Dividend payments	-	(1,324)	-	-	-	(1,324)	-	(1,324)
Transactions with treasury shares or own equity instruments (net)	-	2	23	-	-	25	-	25
Changes in the scope of consolidation	-	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	(155)	-	-	-	(155)	-	(155)
Other changes in equity								
Share based payments	-	-	-	-	-	-	-	-
Transfers between equity accounts	-	195	-	(195)	-	-	-	-
Other changes	-	(19)	-	-	18	(1)	1	-
Closing balance at 06/30/2014	**1,350**	**24,913**	**(3)**	**1,327**	**(888)**	**26,699**	**255**	**26,954**

[1] Includes the necessary modifications with respect to the consolidated financial statements for the year ended December 31, 2013 and the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 (see Note 2 *"Basis of presentation"*).

Notes 1 to 13 are an integral part of the consolidated statement of changes in equity for the six-month period ended June 30, 2014.

Rpsol, S.A. and investees comprising the Repsol Group
Consolidated cash flow statement corresponding to the interim periods ended June 30, 2014 and 2013

	Millions of euros	
	06/30/2014	**06/30/2013 [1]**
Net income before tax	**1,319**	**954**
Adjustments to net income:	**240**	**660**
Depreciation and amortization of non-current assets	942	725
Other adjustments to results (net)	(702)	(65)
Changes in working capital	**(466)**	**(72)**
Other cash flows from operating activities:	**(326)**	**(322)**
Dividends received	199	170
Income tax received / (paid)	(394)	(440)
Other proceeds from / (payments for) operating activities	(131)	(52)
Cash flows from operating activities (2)	**767**	**1,220**
Payments for investing activities:	**(2,104)**	**(1,104)**
Group companies, associates and business units	(18)	(130)
Property, plant and equipment, intangible assets and investment properties	(1,171)	(870)
Other financial assets	(915)	(104)
Proceeds from divestments:	**4,725**	**147**
Group companies, associates and business units	109	134
Property, plant and equipment, intangible assets and investment properties	24	13
Other financial assets	4,592	-
Other cash flows	**-**	**-**
Cash flows used in investing activities (2)	**2,621**	**(957)**
Proceeds from/ (payments for) equity instruments:	**22**	**1,025**
Acquisition	(50)	(37)
Disposal	72	1,062
Disposals of ownership interests in subsidiaries without loss of control	-	-
Proceeds from / (payments for) financial liabilities:	**(900)**	**597**
Issues	2,358	2,788
Return and depreciation	(3,258)	(2,191)
Payments for dividends and payments on other equity instruments	**(1,350)**	**(238)**
Other cash flows from financing activities:	**(498)**	**(480)**
Interest payments	(410)	(356)
Other proceeds from/ (payments for) financing activities	(88)	(124)
Cash flows used in financing activities (2)	**(2,726)**	**904**
Effect of changes in exchange rates	**27**	**(12)**
Net increase / (decrease) in cash and cash equivalents	**689**	**1,155**
Cash Flows from operating activities from discontinued operations	(72)	435
Cash Flows from investment activities from discontinued operations	513	16
Cash Flows from financing activities from discontinued operations	(1)	(102)
Effect of changes in exchange rates from discontinued operations	-	(2)
Net increase / (decrease) in cash and discontinued operations	**440**	**347**
Cash and cash equivalents at the beginning of the year	5,716	4,108
Cash and cash equivalents at the end of the year	6,845	5,610

COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**06/30/2014**	**06/30/2013 [1]**
(+) Cash and banks	4,882	5,225
(+) Other financial assets	1,963	385
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**6,845**	**5,610**

(1) Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses (see Note 2 "*Basis of presentation*").

(2) Includes cash flows from continuing operations.

Notes 1 to 13 are an integral part of the consolidated statement of cash flows for the interim period ended June 30, 2014.

REPSOL, S.A. AND INVESTEES COMPRISING THE REPSOL GROUP

Explanatory notes to the interim consolidated financial statements for the six-month period ended June 30, 2014.

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(1) GENERAL INFORMATION

Repsol, S.A. and the investees comprising the Repsol Group (hereinafter “Repsol” the “Repsol Group” or the “Group”) constitute an integrated group of oil and gas companies which commenced operations in 1987.

The Repsol Group is engaged in all the activities relating to the oil and gas industry, including exploration, development and production of crude oil and natural gas, transportation of oil products, liquified petroleum gas (LPG) and natural gas, refining, the production of a wide range of oil products and the retailing of oil products, oil derivatives, petrochemicals, LPG and natural gas, as well as the generation, transportation, distribution and supply of electricity.

The Group operates in more than 40 countries and its Headquarter is in Spain.

The corporate name of the parent of the Group of companies that prepares and files these financial statements is Repsol, S.A., which is registered at the Madrid Commercial Registry in sheet no. M-65289. Its Tax Identification Number (C.I.F) is A-78/374725.

Its registered office is in Madrid, calle Méndez Álvaro, 44, where the Shareholder Service Office is also located, the telephone number of which is 900.100.100.

Repsol S.A. is a private entity incorporated in accordance with Spanish legislation, which is subject to the Companies Act (Ley de Sociedades de Capital) approved by Legislative Royal Decree 1/2010 of July 2nd, and all other legislation related to listed companies.

Repsol, S.A.’s shares are represented by book entries and are all admitted to trading on the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao, and Valencia) and the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires). The Company also has a program of American Depositary Shares (ADS), currently traded on the OTCQX market, a platform within the OTC market (over-the-counter) in the United States which distinguishes issuers with improved market information and solid business activities.

At June 30, 2014, the share capital of Repsol amounted to €1,324,516,020 fully subscribed and paid in, consisting of 1,324,516,020 shares with a nominal value of 1 euro each.

The paid-up capital increase approved by the Annual Shareholders' Meeting held on March 28, 2014 under item 5 of the Agenda was closed last July 7 as part of the compensation scheme to shareholders known as the "Repsol Flexible Dividend”. The main terms of the capital increase are described in section f) “*Equity - 1. Share capital and Reserves*” in Note 3. In accordance with applicable accounting regulations, this capital increase was recognized in the financial statements at June 30, 2014.

These interim condensed consolidated financial statements for the six-month period ended June 30, 2014, have been prepared by the Board of Directors of Repsol, S.A. at their meeting on July 23, 2014.

(2) BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements are presented in millions of euros (except for any other information in which another currency or parameter is specified), and were prepared based on the accounting records of Repsol, S.A. and its investees. They are presented in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union at June 30, 2014, and particularly, pursuant to the

requirements established in IAS 34 *Interim Financial Reporting* which establishes the accounting principles in relation with interim financial statements, and in conformity with Art. 12 of RD 1362/2007, and the disclosures of information required by the Circular 1/2008, of January 30, issued by the Spanish securities market regulator (abbreviated CNMV in Spanish).
In this regard, the interim financial statements present fairly the Group's consolidated equity and the financial position at June 30, 2014, as well as the results of operations, the changes in consolidated equity and consolidated cash flows that have occurred during the six-month period ended on that date.

Pursuant to the provisions of IAS 34, interim financial information is prepared only with the intention of updating the content of the last annual consolidated financial statements prepared by the Company, emphasizing new activities, events and circumstances that occur during the half-year and not duplicating the information previously published in the consolidated financial statements for the prior financial year. Therefore, for an adequate understanding of the information that is included in these interim financial statements, they must be read in conjunction with the condensed consolidated financial statements of the Repsol Group for the financial year 2013, which were approved by the General Shareholders' Meeting of Repsol, S.A., held on March 28, 2014.

Accounting standards: new standards and interpretations issued or amended

A) With respect to the accounting framework applicable as of December 31, 2013, below is a list of the standards and amendments that have been issued by the International Accounting Standards Board (IASB) and adopted by the European Union and are applicable from January 1, 2014:

- IFRS 10 *Consolidated Financial Statements.*
- IFRS 11 *Joint Arrangements.*
- IFRS 12 *Disclosure of Interests in Other Entities.*
- IAS 27 *Separate Financial Statements.*
- IAS 28 *Investments in Associates and Joint Ventures.*
- Amendments to IFRS 10, IFRS 11 and IFRS 12 - *Transition Guidance.*
- Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities.*
- Amendments to IAS 32 - *Offsetting Financial Assets and Financial Liabilities.*
- Amendments to IAS 39 - *Novation of Derivatives and Continuation of Hedge Accounting.*

Except as indicated below, application of these new and amended standards has not had a significant impact on the Group's interim condensed consolidated financial statements.

The application by the Group as of January 1, 2014 of IFRS 11 *Joint Arrangements* has not had a significant impact on equity in the interim condensed consolidated financial statements. However, the mentioned application has implied important changes in how the Group presents its interim condensed consolidated financial statements since as of December 31, 2013, the Group aplied the proportionate method of accounting to consolidate its interests in joint ventures. This accounting treatment is no longer applicable as of January 1, 2014 (see d section) "*Investments accounted using the equity method*" of Note 3 where the main affected companies by this accounting standard are disclosed.

The Group has performed an analysis to identify the joint arrangements and to classify them either as joint operation or joint venture and determine the necessary balance sheet, income statement and cash flow statement line item reclassifications.

In this respect, below is a table outlining the impact of the accounting standard change with respect to the consolidated balance sheet at December 31, 2013, the consolidated income statement and the consolidated cash flow Statement as of June 30, 2013:

	Millions of euros		
	Stated (IAS 31)	Restated (IFRS 11)	
Balance sheet	**31/12/2013**	**31/12/2013**	**Change**
Non-current assets	42,582	37,771	(4,811)
Current assets	22,504	17,776	(4,728)
TOTAL ASSETS	**65,086**	**55,547**	**(9,539)**
Total equity attributable to equity holders of the parent	27,207	27,207	-
Minority interest	713	243	(470)
Non-current liabilities	22,347	14,721	(7,626)
Current liabilities	14,819	13,376	(1,443)
TOTAL EQUITY AND LIABILITIES	**65,086**	**55,547**	**(9,539)**

	Millions of euros		
	Stated (IAS 31)	Restated (IFRS 11)	
Income statement	**06/30/2013**	**06/30/2013**	**Change**
Operating revenue	29,244	24,706	(4,538)
Operating expenses	(27,253)	(23,628)	3,625
Financial result	(385)	(262)	123
Share of results of companies accounted for using the equity method-net of tax	74	477	403
Income tax	(717)	(364)	353
Minority interests	(18)	16	34
Net income for the period from continuing operations attributable to the parent	**945**	**945**	**-**

	Millions of euros		
	Stated (IAS 31)	Restated (IFRS 11)	
Cash flow statement	**06/30/2013**	**06/30/2013**	**Change**
Cash flows from operating activities [(1)]	2,579	1,655	924
Cash flows used in investing activities [(1)]	(1,534)	(941)	(593)
Cash flows used in financing activities [(1)]	766	802	(36)
TOTAL CASH AND CASH EQUIVALENTS	**7,693**	**5,610**	**2,083**

(1) Includes cash flows from discontinued operations.

Appendix III to these interim condensed consolidated financial statements presents the consolidated balance sheet at December 31, 2013, the consolidated income statement and cash flow statement for the six-months ended June 30, 2013 restated due to the application of IFRS 11 and the sale of part of LNG assets and businesses (see Note 2, "*Comparison of information*").

B) The standards that have been published by the IASB, adopted by the European Union and that the Group will be obligated to apply in 2015 are listed as follows:

- IFRIC 21 – *Levies.*

The Group believes that application of this interpretation will not have a significant impact on its consolidated financial statements.

C) At the date of issuance of these interim condensed consolidated financial statements, the standards and amendments that have been issued by the IASB but not yet approved by the European

Union, are the following:

Mandatory application in 2014

- Improvements to IFRSs 2010-2012[(1)].

Mandatory application in 2015

- Amendments to IAS 19 - *Employee Contributions*.
- Improvements to IFRSs 2010-2012[(1)].
- Improvements to IFRSs 2011-2013.

Mandatory application in 2016:

- IFRS 14 *Regulatory deferral accounts* [(2)].
- Amendments to IAS 16 and IAS 38 – *Clarification of acceptable methods of depreciation and amortization*.
- Amendments to IFRS 11 – *Acquisitions of interests in joint operations.*
- Amendments to IAS 16 and IAS 41 – *Agriculture: fruit producing plants.*

Mandatory application in subsequent years

- IFRS 9 *Financial Instruments* [(3)].
- IFRS 15 *Revenue from contracts with customers* [(4)].

(1) The document "*Annual Improvements to IFRSs 2010-2012*" introduces amendments to several IFRSs. Some of these amendments have been issued with a first-time application date of July 1, 2014, while others have been issued for first-time application in annual periods beginning on or after July 1, 2014 which, in the case of the Group, implies a first-time application date of January 1, 2015.

(2) This standard only applies to entities that carry out regulated activities and are applying IFRSs for the first time.

(3) Corresponding to the "*Classification and Measurement*" and "*Hedge Accounting*" phases of IFRS 9, part of the project to replace the current IAS 39 "*Financial Instruments – Recognition and Measurements*", and including the subsequent amendment issued by the IASB in November 2013 by virtue of which IFRS 9 shall apply from a future date still pending definition but later than January 1, 2015, as had been originally envisaged in IFRS 9 prior to this amendment. At the date of authorizing the accompanying interim financial statements for issue, the most recent tentative decision by the IASB in this regard implies that the date of mandatory first-time application of IFRS 9 will be annual periods beginning on or after January 1, 2018.

(4) This standard was issued by the IASB with the date of first-time application being established as January 1, 2017.

With regard to the other standards, interpretations and amendments identified in the current section C), the Group is currently analyzing the impact their application may have on the consolidated financial statements.

Accounting Policies

As described in Note 2.2 of the notes to the consolidated financial statements for the year 2013, in the preparation of these interim condensed consolidated financial statements, Repsol has applied the same accounting policies applied in 2013, except as indicated in section A) above.

Comparison of information

As a result of application of IFRS 11 from January 1, 2014 (see "*Accounting standards: new standards and interpretations issued or amended*", Note 2) and the sales in October and December 2013 and January 2014 of part of the liquified natural gas (LNG) assets and businesses (see "*Changes in the Group's composition*", Note 2), the comparative information for 2013 has been restated to enable a comparable reading with that presented at June 30, 2014.

The earnings per share figures for the six months ended June 30, 2013 have been restated with respect to the figures presented in the interim condensed consolidated financial statements at June 30, 2013, in accordance with the applicable accounting standard, as the average number of outstanding shares considered in the calculation should be based on the new number of shares issued after the capital increase, carried out as part of the shareholder remuneration scheme denominated "Repsol Flexible Dividend". This scheme is described in "*f) Equity – 1. Share capital and reserves*" in Note 3 and has been registered as of June 30, 2014.

Changes in accounting estimates and judgments

Management estimates have been used to quantify certain assets, liabilities, income, and expenses that are recorded in the interim condensed consolidated financial statements. These estimates are made based on the best available information and they refer to:

1) Crude and gas reserves;
2) The provision for legal and arbitration proceedings and other contingencies;
3) The expense for income tax, which, pursuant to IAS 34, is recognized in interim periods based on the best estimate of the average weighted tax rate that the Group expects for the annual period as well as deferred tax assets;
4) The evaluation of possible impairment losses on certain assets (see Note 3, section g)); and
5) The market value of certain derivative financial instruments.

Despite the fact that the estimates described above are made based on the best available information on the date on which the facts are analyzed, possible future events might require their revision (upward or downward) at year end 2014 or in subsequent years.

During the six-month period ended June 30, 2014, non-significant changes have been made in the methodology for calculating the estimates made at year end 2013.

Relative importance

When determining the information to be included in these interim condensed consolidated financial statements under the different items in the financial statements or other matters, the Repsol Group, pursuant to IAS 34, has taken into account their relative importance in relation to the interim condensed consolidated financial statements for the six-month period.

Seasonality

Among the activities of the Group, LPG and natural gas businesses are the most affected ones by seasonality due to their connection to weather conditions, with more activity in the winter and less in the summer in the northern hemisphere.

Changes in the Group's composition

Repsol prepares its consolidated financial statements including its investments in all its subsidiaries, associates and joint arrangements. Appendix I of the consolidated financial statements at December 31, 2013 details the main companies that comprise Repsol Group, which were included in the scope of consolidation at that date.

Appendix I to these interim condensed consolidated financial statements details the changes in the scope of consolidation of the Group that have taken place during the first half of 2014.

The principal changes in the scope of consolidation that have taken place during the interim period ended at June 30, 2014 and their impact on the accompanying interim condensed consolidated financial statements are detailed below:

- The last transaction relating to the sale of part of the LNG assets and businesses to Shell completed on January 1, 2014 (see Note 31 of the 2013 consolidated financial statements) with the sale of Repsol Comercializadora de Gas, S.A., whose main activity was the commercialization, transport and trading of Liquid Natural Gas (LNG), for $730 million. At December 31, 2013 this company's assets and liabilities were classified as assets held for sale (see Note 10 to the consolidated financial statements as of December 31, 2013).

  The carrying amounts of the assets and liabilities derecognized as a result of this disposal are as follows:

	Millions of euros
Cash and cash equivalents	236
Other current assets	210
Non-current assets	1,110
TOTAL ASSETS	**1,556**
Minority interests	
Current liabilities	1,172
Non-current liabilities	284
TOTAL LIABILITIES AND MINORITY INTERESTS	**1,456**
NET ASSETS	**100**

  This transaction generated a pre-tax gain of €433 million (amount which includes the exchange historic differences recorded under "*Adjustments for changes in value*" in equity for €3 million) and has been recognized in "*Net income from discontinued operations*".

- Additionally, in March, Repsol sold its 10% interest in the Transportadora de Gas del Perú (TGP) pipeline to Enagás for €109 million net of purchase price adjustments. As of December 31, 2013 this investment was classified as an asset held for sale.

  The sale implied the derecognition of the carrying amount of this investment, which was recognized under "*Non-current assets held for sale*" in the balance sheet in the amount of €45 million, along with the exchange historic differences recorded under "*Adjustments for changes in value*" in equity in the amount of €7 million. This transaction generated an after-tax gain of €57 million, which is recognized within "*Share of results of entities accounted for using the equity method – net of tax*".

(3) DESCRIPTION OF TRANSACTIONS OF THE PERIOD

The most significant changes recognized in the first six months of 2014 and 2013 under headings in the consolidated balance sheet and the income statement are described below.

a) Property, plant and equipment

The main additions made in the first half of 2014 corresponded to exploration and production assets in United States (€457 million), Peru (€70 million), Trinidad & Tobago (€54 million) and Bolivia (€45 million). In addition, during this period, significant additions were made in refining assets in Spain (€207 million).

The main investments made in the first half of 2013 corresponded to exploration and production assets in United States (€408 million), Peru (€65 million), and Bolivia (€56 million). In addition, during this period, significant additions were made in refining assets in Spain (€172 million).

Exploration and production asset depreciation charges have increased in the first half of 2014 when compared to the first half of 2013 due to higher drilling depreciation charges and higher depreciation associated with the start-up of production at new projects.

b) Assets and liabilities related to the expropriation of the Repsol Group Shares in YPF S.A. and YPF Gas S.A. – Argentina Agreement

On February 27, 2014, Repsol, S.A., Repsol Capital S.L. and Repsol Butano, S.A., on the one hand, and the Republic of Argentina, on the other, signed the agreement known as Agreement for the Amicable Settlement and Compromise of Expropriation (hereinafter, the "Agreement"), designed to put an end to the controversy originated by the expropriation of 51% of the equity of YPF S.A. and YPF Gas S.A.. The Agreement had been approved by the Board of Directors of Repsol on February 25, 2014. Simultaneously to the execution of this Agreement, Repsol, on the one hand, and YPF S.A. and YPF Gas S.A., on the other, signed an agreement (the "Settlement Agreement"), under which the parties principally agreed to withdraw all ongoing legal proceedings and/or claims, providing each other with a series of mutual waivers and indemnities.

Under the terms of the Agreement, the Republic of Argentina recognized an irrevocable debt in favour of Repsol of USD5,000 million as compensation for the expropriation of 200,589,525 Class D YPF S.A. shares and 89,755,383 Class A YPF Gas S.A. shares (the "Expropriated Shares") and any other items contemplated under the Agreement (the "Compensation"). This agreement implies the withdrawal by both parties of all the legal and arbitration proceedings initiated in relation of the expropriation and preservation of the expropriated assets, and a reciprocal undertaking not to file new claims related to the expropriation and management of Repsol in YPF S.A. and YPF Gas S.A., and includes the pertinent indemnity clauses and other legal guarantees to ensure the effective settlement of the Compensation. To settle the Compensation, the Republic of Argentina will give Repsol US dollar-denominated sovereign bonds issued by it (the "Government Bonds"). The Government Bonds would constitute a method for paying the Compensation awarded to Repsol and would be given to Repsol "*pro solvendo*", which means that the Republic of Argentina's payment obligation would not be extinguished by the mere delivery of the Government Bonds to Repsol but rather when the latter collects the amount of Compensation in full, either by disposing of the Government Bonds or via repayment of the bond principal at the respective maturity dates.

Any discrepancies that could arise in relation to the Agreement are subject, exclusively, to international arbitration in accordance with the United Nations Commission on International Trade Law Arbitration Rules ("UNCITRAL") and any arbitration proceedings would be heard in Paris, France.

Effectiveness of the Agreement was subject to certain conditions precedent, notable among which ratification of the Agreement at the General Shareholders' Meeting of Repsol, S.A. (the Agreement was ratified by means of the resolution taken at the General Shareholders' Meeting of Repsol, S.A. of March 28, 2014 under agenda item four) and full and unconditional approval of the Agreement by means of a special-purpose law sanctioned by the Argentine National Congress (Law 26,932, was sanctioned by the Congress on April 23, 2014, promulgated on April 24, 2014 and published in the Official Journal of the Republic of Argentine on April 28, 2014).

On May 8, Repsol and the Republic of Argentina verified compliance of the conditions precedent stipulated in the Agreement and carried out the other actions on which its effectiveness and entry into force depended.

- On the one hand, the Argentine Republic delivered to Repsol a portfolio of Government Bonds with a total nominal value of USD5,317 million, made up of:

  BONAR X: USD500 million of nominal value.
  Discount 33: USD1,250 million of nominal value.
  BONAR 2024: USD3,250 million of nominal value.
  BODEN 2015: USD317 million of nominal value.

  In addition, to ensure the payment of the first three interest payments of BONAR 2024, Repsol will be the beneficiary of a specific guarantee provided by the Argentine Central Bank up to a maximum of USD150 million which will be in force for 18 months.

- On the other hand, Repsol delivered to the Republic of Argentina: (i) the documentation needed to transfer the Expropriated Shares, and (ii) the deeds certifying the withdrawal of the judicial, administrative and arbitration proceedings initiated by the Company and its related persons (as defined in the Agreement) in relation to the expropriation and Repsol's position as shareholder of YPF S.A and YPF GAS S.A.

The Settlement Agreement under which Repsol S.A., on the one hand, and YPF S.A. and YPF Gas S.A., on the other, have dropped all legal action and/or claims initiated against the other party and waived the right to present claims or demand responsibilities in the future took effect on May 9, 2014 (see Note 9, "*Contingencies and guarantees*").

On 9, 13 and 22 of May 2014, Repsol agreed with JP Morgan Securities several transactions relating to the sale of the whole portfolio of bonds delivered by the Republic of Argentina as means of payment of the compensation for the expropriation of the controlling stake in YPF and YPF Gas, for a total amount of USD4,997 million. These sales implied the extinguishment of the debt payable by the Argentine Republic.

Accounting treatment

As of December 31, 2013, the balance recognized in "*Non-current assets held for sale subject to expropriation*" in respect of the Repsol Group's shares in YPF S.A. and YPF Gas S.A. amounted to €3,625 million euros.

On May 8, 2014, upon entry into force and full effectiveness of the Agreement, the shares corresponding to 51% of YPF S.A. and YPF GAS S.A. were derecognized and a pre-tax loss of €42 million, relating to the cumulative effect of the trend in the dollar/euro exchange rate previously registered under "*Adjustments for changes in value*" in equity, was transferred to profit and loss ("*Net income for the period from discontinued operations*").

As of the same date, the Group recognized USD5,000 million within "*Non-current financial assets*" corresponding to the debt collection right awarded by the Argentine Republic as stated in the Agreement. As a result of the sale to JP Morgan Securities of the entire bond portfolio in a series of transactions arranged on May 9, 13 and 22, this collection right has been cancelled, impacting the income statement by €14 million (pre-tax), which is recognized under "*Impairment and gains (losses) on disposal of financial instruments*" and that includes the inherent costs of the operation. In addition, this bond portfolio has generated a pre-tax finance income of €73 million as a result of exchange gains and interest earned during the holding period.

c) *Repsol Group's unexpropriated shares in YPF, S.A. and YPF GAS, S.A.*

At December 31, 2013, the Group held unexpropriated shares in YPF S.A. and YPF Gas S.A., which were carried under "*Non-current financial assets*", in the amount of €1,177 million.

On May 7, Repsol announced the sale of 46,648,538 ordinary Class D shares of YPF, S.A. in the form of American Depositary Shares (ADSs), representing 11.86% of this investee's share capital, to Morgan Stanley & Co for USD1,255 million.

Elsewhere, in relation to the loan which Banco Santander extended to the Petersen group in June 2008 for its acquisition of shares of YPF S.A. and which was guaranteed by Repsol, on May 8, 2014, Repsol executed the pledge over the 1,887,362 ordinary Class D shares, in the form of ADSs and representing 0.48% of YPF S.A. which had been pledged as counter guarantee. These shares were sold to institutional investors, on May 12, 2014 for USD56 million.

Finally, Repsol sold 150,000 ordinary Class D shares on the market in the form of American Depositary Shares (ADSs), for USD 5 million.

The above-listed transactions have generated a pre-tax gain of €453 million, which has been recorded under "*Impairment and gains (losses) on disposal of financial instruments*" of the Financial Result, at the difference between the sale price and the historic value at the expropriation date, previously registered in equity under "*Adjustments for changes in value*".

At June 30, 2014, the Repsol Group owned 155 ordinary Class D YPF S.A. shares and 59,839,034 shares of YPF GAS S.A. with a carrying amount of €11 million.

d) Investments accounted using the equity method

The details of the investments, accounted for using the equity method and the results in each of the periods is as follows:

	Carrying amount of the investment		**Share of profit/(loss) by integration**	
Millions of euros	06/30/2014	31/12/2013	06/30/2014	06/30/2013
Gas Natural Fenosa Group [(1)]	4,503	4,358	279	234
Repsol Sinopec Brasil [(1) (2)]	3,724	3,605	84	(38)
Petroquiriquire [(1)]	723	749	70	42
YPFB Andina [(1)]	405	434	51	51
BPRY [(1)]	308	295	75	85
Petrocarabobo	130	115	3	4
Other companies and gain/(losses) on disposals[(3)]	859	784	117	26
	10,652	**10,340**	**679**	**404**

(1) These jointly controlled entities were accounted for using the proportionate method of consolidation at December 31, 2013.
(2) Includes Repsol Sinopec Brasil, S.A., Repsol Sinopec Brasil B.V., Guará B.V. and Agri Development, B.V.
(3) Includes the gain on the sale of TGP.

e) Non-current assets and liabilities held for sale

Regarding assets and liabilities classified as held for sale at December 31, 2013 and that have been sold during the first half of 2014, see Note 2 "*Changes in the Group's composition*" section.

f) Equity

1. Share capital and reserves

On March 28, 2014, Repsol's Annual Shareholders' Meeting under item nineteen on the agenda, authorized the Board of Directors to increase the share capital on one or more occasions and at any time within 5 years, through monetary contributions and a maximum nominal amount of 662 million euros, equivalent to half of the share capital at the date of adoption of the agreement

On March 28, 2014, Repsol's Annual Shareholders' Meeting approved, under items five and six of the agenda, two paid-up capital increases for articulation of the shareholder remuneration scheme called "Repsol Flexible Dividend", in substitution of the traditional payment of the 2013 final dividend and 2014 interim dividend. Under this scheme, shareholders can chose if they prefer to receive their compensation in cash (by selling their free-of-charge allocation rights in the market or to the Company) or in Company shares.

The first paid-up capital increase was executed between June and July. The key characteristics are detailed below:

- The free-of-charge allocation rights were traded on the Spanish Stock Exchanges between and including June 19 and July 4, 2014. The deadline granted to the shareholders to sell their rights to Repsol at a guaranteed price ended on June 27.

- Holders of 75.84% of the free-of-charge allocation rights (a total of 1,004,498,391 rights) chose to receive new-issue shares of Repsol in the proportion of 1 new share for every 39 rights held, resulting in the issuance of 25,756,369 new shares of €1 par value, which meant an increase of 1.94% over the figure of capital prior to the increase.

- On the other hand, the holders of 24.16% of the free-of-charge allocation rights (320,107,594 rights), accepted the irrevocable commitment assumed by Repsol to purchase rights at a fixed price of €0.485 (gross) per right. Accordingly, Repsol acquired the above mentioned rights for a total amount of €155 million and waived the shares corresponding to the free-of-charge allocation rights acquired by virtue of the above mentioned purchase commitment.

- This capital increase was closed on July 7, 2014. The new shares began to trade on the Madrid, Barcelona, Bilbao and Valencia stock exchanges through the Spanish Automated Quotation System (Mercado continuo, by its name in Spanish) on July 16, 2014. Repsol had also applied for the listing of the new shares in the Buenos Aires Stock Exchange.

Subsequent to the capital increase, Repsol, S.A.'s share capital amounted to €1,350,272,389 fully subscribed and paid up, consisting of 1,350,272,389 shares with nominal value of 1 euro each.

This capital increase was registered with the Commercial Registry of Madrid prior to the approval of these interim condensed consolidated financial statements, and, accordingly, was recognized in the Group financial statements with accounting effects June 30, 2014, in compliance with prevailing accounting regulation.

According to the latest information available at the time of issuance of these condensed consolidated interim financial statements, the significant shareholders of Repsol, SA are:

Significant shareholders	% of total share capital Based on latest available reports
Fundación Bancaria Caixa d'Estalvis y Pensions de Barcelona (1)	11.90%
Sacyr, S.A.(2)	9.05%
Temasek Holdings (Private) Limited (3)	6.14%
Blackrock, Inc. (4)	3.09%

(1) Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona holds its interest through CaixaBank, S.A., a company in which it in turn has a 58.844% shareholding.
(2) Sacyr, S.A. holds its shareholding through Sacyr Participaciones Mobiliarias, S.L.
(3) Temasek holds its investment through its subsidiary, Chembra Investment PTE, Ltd.
(4) Blackrock holds its interest through several controlled subsidiaries, all of which are subject to a same voting policy.

On June 3, 2014 Petroleos Mexicanos (PEMEX) ceased to be significant shareholder of the Group as a result of the sale of the shares of Repsol, SA representing 7.86% of the share capital at that date.

2. Treasury shares and own equity instruments

Under the framework of the 2014 Share Acquisition Plan approved at the Annual Shareholders' Meeting held on May 31, 2012, during the first six months of 2014, the Group acquired a total of 199,839 shares, at a cost of €3.7 million. These shares have been delivered to the employees of the Repsol Group participating in the plan. In the same period of the previous year, under the framework of the 2013 Share Acquisition Plan, the Company acquired a total of 205,785 shares, at a cost of €3.5 million. These shares were delivered to the Repsol Group employees participating in the plan.

Aditionally, with respect to the completion of the first cycle Loyalty Plan (2011-2014), 57,146 shares were acquired and delivered to employees of Repsol Group at a cost of €1.2 million.

During the first six months of 2014, the Group acquired 2,338,141 treasury shares amounting to €43.9 million. During the same period, the Group sold 3,034,011 treasury shares amounting to €58.5 million. Lastly, 600,000 treasury shares were disposed of as a consequence of options on treasury shares, amounting to €11 million.

In addition, during the first six months of 2013, the Group acquired 2,579,733 treasury shares amounting to €43 million. During the same period, the Group sold 969,036 treasury shares amounting to €16.7 million. Lastly, 377,500 treasury shares were disposed of as a consequence of options on treasury shares, amounting to €7 million.

In July 2014, due to the capital increase described in section 1. "*Share capital and reserves*", the Group received a total of 7,781 new shares corresponding to the shares held as treasury stock.

At June 30, 2014, the treasury shares held by Repsol and/or other companies within the Group, represented 0.011% of its share capital recognized on that same date.

3. Earnings per share

At June 30, 2014 and 2013 earnings per share were the following:

Millions of euros	2014	2013
Net income attributable to the parent [1]	1,327	901
Weighted average number of outstanding shares at June, 30 (shares)	1,349,453,429	1,327,594,713

Earnings per share attributed to parent *(Euros)*	**2014**	**2013**
Basic EPS [2]	0.98	0.68
Diluted EPS [2]	0.98	0.68

(1) Includes net income from discontinued operations of €268 and €216 million euros in the first six months of 2014 and 2013, respectively.

(2) Includes earnings per share corresponding to income from discontinued operations of €0.20 and €0.16 in the first six months of 2014 and 2013, respectively.

Outstanding issued share capital at June 30, 2013 amounted to 1,282,448,428 shares. However, the weighted average number of shares outstanding at that date had been restated compared to that used to calculate the profit per share in the interim condensed consolidated financial statements at June 30, 2013 to include the effect of the capital increase as part of the compensation scheme to shareholders known as the "Repsol Flexible Dividend" (see section f), "*Equity - 1. Share capital and Reserves*") in accordance with the applicable accounting regulations.

g) Impairment of assets

Repsol performs a valuation of its intangible assets, its property, plant and equipment, and other non-current assets, as well as its goodwill, at least annually, or whenever there are indicators that the assets have become impaired, to determine whether there is an impairment loss.

During the first half of 2014, the field operator reviewed the development plan in place for the non-conventional assets at the Mississippian Lime (Mid-Continent) field located in the states of Kansas and Oklahoma in the US, which are part of the Upstream segment. The Repsol Group, based on the new development plan and applying prudent financial criteria, have adjusted the accounting value of the mentioned assets and recognized a €223 million pre-tax impairment loss under "*Impairment losses recognized and losses on disposal of non-current assets*".

h) Revenue by geographical area

The breakdown of revenue (corresponding to "*Sales*" and "*Services rendered and other income*" in the accompanying income statement), by geographical area based on the destination market, is as follows:

	Millions of euros	
Geographical area	**06/30/2014**	**06/30/2013 [1]**
Spain	12,340	12,242
Other European Union countries	3,655	3,304
Other OECD countries	3,265	2,646
Other countries	4,449	5,202
TOTAL	**23,709**	**23,394**

(1) Includes the necessary modifications with respect to the interim condensed consolidated financial statements for the six-month period ended June 30, 2013 (see Note 2 "*Comparison of information*") in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses.

i) Other operating income.

On April 1, 2014, Repsol, S.A. and Naturgas Energía Grupo, S.A. agreed the early cancellation of the long-term maritime shipping agreement covering the transport of specific quantities of LNG acquired by Naturgas. In exchange, Naturgás will pay Repsol, S.A. USD95 million in two installments. As a result, in the first half of 2014 the Group recognized a pre-tax gain of €69 million under "*Other operating income*". As of June 30, 2014, the amount of €34 million related to the second payment which is expected to be received on April 2015, was outstanding.

In addition, in relation with the application in Spain of bottled LPG regulation, the National High Court recognized Repsol's entitlement to damages for the losses derived from application of the price formula for the second, third and fourth quarters of 2011 and the first quarter of 2012. This has resulted, in a post-tax gain €45 million (see "*Litigation*" section in Note 9 in this document).

j) Net income from discontinued operations

The table below provides a breakdown by nature of "*Net income for the period from discontinued operations after tax"*:

		Millions of euros	
	Note	**06/30/2014**	**06/30/2013**
Operating revenue		-	1,201
Operating expenses		(35)	(979)
Operating income		**(35)**	**222**
Financial result		(2)	(19)
Share of results of companies accounted for using the equity method-net of tax		-	72
Net income from discontinued operations before taxes		**(37)**	**275**
Tax expense corresponding to net income from discontinued operations before tax		4	(59)
Net income from discontinued operations after taxes		**(33)**	**216**
After-tax gain on the sale of the LNG assets	**2**	**329**	**-**
After tax gain/(loss) on the valuation of assets classified as non-current assets held for sale subject to expropriation	**3**	**(28)**	**-**
NET INCOME FROM DISCONTINUED OPERATIONS AFTER TAXES		**268**	**216**
Net income for the period from discontinued operations attributable to minority interests		-	-
NET INCOME FROM DISCONTINUED OPERATIONS ATRIBUTTABLE TO THE PARENT		**268**	**216**

(4) SEGMENT REPORTING

The organizational structure of the Group and its operating segments is based on the activities from which the Group may earn revenue or incur in expenses. On the basis of this Board-approved structure, the Group's management team (Repsol Executive Committee) analyzes the main operating and financial indicators in order to make decisions about segment resource allocation and to assess how the Company is performing. The Group has not aggregated any operating segments for presentation purposes.

In this respect, and as a result of the culmination in January 2014 of the sale of the vast majority of LNG assets and businesses, the LNG segment is no longer considered an operating segment.

As from that date, the LNG assets and businesses retained by the Group are analyzed together with the rest of *Downstream* activities.

At June 30, 2014, the operating segments of the Group are:

- *Upstream,* corresponding to oil and gas exploration and development of crude oil and natural gas reserves.
- *Downstream*, corresponding to (i) refining, sales activities for oil products, chemical products and liquefied petroleum gases, (ii) commercialization, transport and regasification of natural gas and liquefied natural gas (LNG), and (iii) renewable energy generation projects; and
- *Gas Natural Fenosa*, though its shareholding in Gas Natural SDG, S.A., whose main activities are the distribution and commercialization of natural gas, and the generation, distribution and commercialization of electricity.

The Company carries out a significant portion of its activities through investments in joint ventures. Accordingly, for the purpose of management decision-making with respect to resource allocation and performance assessment, the operating and financial metrics of joint ventures are considered from the same perspective and in the same level of detail as in businesses fully consolidated entities. To this end, all the operating segment disclosures include, in proportion to the Group's respective ownership interest, the figures corresponding to its joint ventures or other companies managed as such.

Repsol Group made the decision in 2014, prompted by the business reality and in order to make its disclosures more comparable with those in the sector, to disclose the recurring net operating profit of continuing operations at current cost of supply (CCS) after tax as a measure of the result of each segment ("Adjusted Net Income"), which excludes both non-recurring net income1 and the inventory effect.

The adjusted net income is prepared by using the inventory measurement method widely used in the industry, current cost of supply (CCS), which differs from that accepted under prevailing European accounting standards (MIFO). The use of CCS methodology facilitates users of financial information comparisons with other companies in the sector. Under CCS methodology, the purchase price of volumes of inventories sold during the period is based on current prices of purchases during the period. The inventory effect is the difference between the net income using CCS and the net income using MIFO. In this note, the inventory effect is presented net of the tax effect and excluding non-controlling interests.

The adjusted net profit excludes non-recurring items, referring to items originating from events or transactions falling outside the company's ordinary or usual activities, that are exceptional in nature and result from isolated events.

The financial performance of the Gas Natural Fenosa segment is evaluated on the basis of its net income contribution and the cash flow obtained through the dividends received. Accordingly, the net income of this segment is presented as the company's net income in accordance with the equity method and the other metrics are only included the cash flows generated by the Repsol Group as shareholder of Gas Natural SDG, S.A.

For each of the metrics identified as "adjusted" the corresponding income statement headings and figures are indicated to facilitate reconciliation with the corresponding income statement amounts.

The table below details the Repsol Group's main income statement headings broken down into the operating segments defined above:

Adjusted operating revenue from continuing operations by segment

	Millions of euros					
	Operating revenue from customers		Operating revenue inter segments		Total operating revenue	
Segments	**06/30/2014**	**06/30/2013**	**06/30/2014**	**06/30/2013**	**06/30/2014**	**06/30/2013**
Upstream	1,427	1,723	692	848	2,119	2,571
Downstream	23,196	22,602	3	3	23,199	22,605
Gas Natural Fenosa	-	-	-	-	-	-
Corporate and adjustment	6		9	2	15	2
(-) Inter-segment adjustments and eliminations of operating income (1)	(704)	(853)	-	-	(704)	(853)
TOTAL (2)	**23,925**	**23,472**	**704**	**853**	**24,629**	**24,325**

NOTE: The adjusted operating revenue has been prepared on the basis of the above-mentioned criteria. The figures corresponding to the six-month period ended June 30, 2013 have been modified with respect to the interim condensed consolidated financial statements for that period to enable a comparable analysis.

(1) These correspond primarily to the elimination of commercial transactions between segments.

(2) The adjusted net revenue for the six month periods ended June 30, 2014 and 2013 includes revenue corresponding to other companies operated under equivalent joint control arrangements of €920 and €931 million, respectively.

Adjusted net income by segment

	Millions of euros	
SEGMENTS	**06/30/2014**	**06/30/2013**
Upstream	400	634
Downstream	452	350
Gas Natural Fenosa	282	253
Corporate and adjustments	(212)	(312)
Total operating income pertaining to the reported segments	**922**	**925**
Other results		
Equity effect	(54)	(153)
Non-recurring items	191	(87)
Net income attributable to minority interests	10	(16)
Income Tax		
Income Tax	250	285
NET INCOME BEFORE TAX	**1,319**	**954**

NOTE: The adjusted net income has been calculated on the basis of the above-mentioned criteria. The figures corresponding to the six-month period ended June 30, 2013 have been modified with respect to the interim condensed consolidated financial statements for that period to enable a comparable analysis.

The breakdown of capital employed by operating segment is as follows:

	Millions of euros	
Capital employed	**06/30/2014**	**31/12/2013**
Upstream	10,050	9,526
Downstream	12,435	12,020
Gas Natural Fenosa	4,503	4,357
Corporate and adjustments	2,358	1,711
Total capital employed by segment	**29,346**	**27,614**

NOTE: The 'capital employed' have been prepared on the basis of the above-mentioned criteria and include capital corresponding to joint businesses, the corresponding items in non-current non-financial assets, working capital and other non-financial liability headings.

(5) DISCLOSURES OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY

a) Financial assets

The breakdown of the different concepts that are included on the balance sheet and related financial assets is as follows:

	Millions of euros	
	06/30/2014	**12/31/2013 (1)**
Non-current financial assets	520	1,888
Other current financial assets	1,616	354
Current derivatives on trading transactions (2)	59	24
Cash and cash equivalents	6,845	5,716
	9,040	**7,982**

(1) Includes the necessary modifications with respect to the 2013 consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.
(2) Recognized under the "*Other receivables*" on the balance sheet.

The detail by type of assets of the Group's financial assets by categories as of June 30, 2014 and December 31, 2013, is as follows:

Millions of euros	**June 30, 2014**						
Nature/Category	**Financial assets held for trading**	**Other financial assets at fair value through profit or loss**	**Financial assets available for sale**	**Loans and receivables (3)**	**Held to maturity investments**	**Hedging derivatives**	**Total**
Equity instruments	-	-	60	-	-	-	60
Derivatives	-	-	-	-	-	-	-
Other financial assets	-	86	-	372	2	-	460
Long Term / Non-current	**-**	**86**	**60**	**372**	**2**	**-**	**520**
Derivatives	70	-	-	-	-	-	70
Other financial assets	-	11	-	1,605	6,834	-	8,450
Short term / Current	**70**	**11**	**-**	**1,605**	**6,834**	**-**	**8,520**
TOTAL (2)	**70**	**97**	**60**	**1,977**	**6,836**	**-**	**9,040**

	December 31, 2013 (1)						
Nature/Category	Financial assets held for trading	Other financial assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables (3)	Held to maturity investments	Hedging derivatives	Total
Equity instruments	-	-	1,223	-	-	-	1,223
Derivatives	-	-	-	-	-	-	-
Other financial assets	-	87	-	576	2	-	665
Long Term / Non-current	**-**	**87**	**1,223**	**576**	**2**	**-**	**1,888**
Derivatives	40	-	-	-	-	-	40
Other financial assets	-	11	-	338	5,705	-	6,054
Short term / Current	**40**	**11**	**-**	**338**	**5,705**	**-**	**6,094**
TOTAL (2)	**40**	**98**	**1,223**	**914**	**5,707**	**-**	**7,982**

(1) Includes the necessary modifications with respect to the 2013 consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.

(2) The balance sheet headings "*Other non-current assets*", "*Trade receivables*" and "*Other receivables*" include non-current and current trade receivables which have not been included in the financial asset breakdown provided in the table above of €119 million and €5,367 million, respectively in 2014, and €60 million and €4,525 million, respectively in 2013. It does not include.the assets presented under "*Non-current assets held for sale subject to expropriation*" in the balance sheet at December 31, 2013 included in the financial asset disclosures provided in the table above.
(3) The carrying amounts of loans and receivables coincide with their fair value.

The column "*Financial assets available for sale*" under "Equity instruments" at December 31, 2013, includes mainly 6.43% of YPF S.A. shares and 33.997% of YPF Gas S.A. shares held by Repsol and that are not subject to expropriation by the Argentinean government, as well as YPF S.A.´s shares acquired via the execution of the loan pledges granted by the Group and other financial entities to the Petersen Group. As of June 30, 2014, all of the shares in YPF S.A. have been derecognized as a result of the sales described in section c) "*Repsol Group's unexpropriated shares in YPF, S.A. and YPF Gas, S.A.*" of Note 3 "*Description of transactions during the period*".

b) Financial liabilities

This note discloses the categories of financial liabilities, included in the balance sheet line-items outlined below:

	Millions of euros	
	06/30/2014	**12/31/2013 (1)**
Non-current financial liabilities	7,222	8,469
Current financial liabilities	6,206	5,833
Current derivatives on trading transactions (2)	146	85
	13,574	**14,387**

(1) Includes the necessary modifications with respect to the 2013 consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.
(2) Recognized under the heading "*Other payables*" on the balance sheet.

Following is a breakdown of the financial liabilities as of June 30, 2014 and December 31, 2013:

Millions of euros	June 30, 2014				
Nature/Category	**Financial liabilities held for trading**	**Debts and payable items**	**Hedging derivatives**	**Total**	**Fair value**
Bank borrowings	-	1,406	-	1,406	1,406
Bonds and other securities	-	5,747	-	5,747	6,337
Derivatives	-	-	69	69	69
Long term debts / non-current financial liabilities	**-**	**7,153**	**69**	**7,222**	**7,812**
Bank borrowings	-	3,158	-	3,158	3,158
Bonds and other securities	-	2,964	-	2,964	2,975
Derivatives	207	-	23	230	230
Short term debts / current financial liabilites	**207**	**6,122**	**23**	**6,352**	**6,363**
TOTAL (1)	**207**	**13,275**	**92**	**13,574**	**14,175**

	December 31, 2013 (1)				
Millions of euros	**Financial liabilities held for trading**	**Debts and payable items**	**Hedging derivatives**	**Total**	**Fair value**
Bank borrowings	-	1,282	-	1,282	1,282
Bonds and other securities	-	7,131	-	7,131	7,455
Derivatives	-	-	56	56	56
Long term debts / Non-current financial liabilities	**-**	**8,413**	**56**	**8,469**	**8,793**
Bank borrowings	-	2,954	-	2,954	2,954
Bonds and other securities	-	2,826	-	2,826	2,866
Derivatives	136	-	2	138	138
Short term debts / Current financial liabilites	**136**	**5,780**	**2**	**5,918**	**5,958**
TOTAL (2)	**136**	**14,193**	**58**	**14,387**	**14,751**

(1) Includes the necessary modifications with respect to the 2013 consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.

(2) At June 30, 2014 and December 31, 2013 € 1,263 million were shown in the balance sheet under *"Other non-current liabilities"* and €154 million under *"Other payables"* corresponding to finance leases recorded under the amortized cost method and not included in the above table.

b.1) Bank borrowings

During May and June 2014, the Group received funding for three banks totaling €200 million maturing in May and June 2017 (€150 million) and May 2018 (€50 million).The interest rate of this funding is the 3-month Euribor plus a spread of 2.1 for half the nominal and 2.25% for other.

In May 2013, the Group signed a €200 million financing agreement with the European Investment Bank for Repsol's 2013-2016 research and development program (R&D). The duration of said loan is fixed at ten years, the first three of which constitute a grace period. The loan bears an interest at 3-month Euribor plus a 1.402% spread.

b.2) Bonds and other securities

The chart below discloses issues, buybacks and repayments of debt securities (recognized under current and non-current "*Bonds and other securities*") which took place during the interim periods ended June 30, 2014 and 2013:

Millions of euros	Balance at 12/31/2013	(+) Issuances	(-) Repurchases or reimbursement	(+/-) Exchange rate and other adjustment	Balance at 06/30/2014
Bonds and other debt securities issued in the European Union with prospectus	9,957	847	(2,063)	(29)	8,712
Bonds and other debt securities issued outside the European Union.	-	-	-	-	-
TOTAL	**9,957**	**847**	**(2,063)**	**(29)**	**8,712**

Millions of euros	Balance at 12/31/2012	(+) Issuances	(-) Repurchases or reimbursement	(+/-) Exchange rate and other adjustment	Balance at 06/30/2013 (1)
Bonds and other debt securities issued in the European union with prospectus	9,875	2,060	(617)	(185)	11,133
Bonds and other debt securities issued outside the European Union	19	-	-	-	19
TOTAL	**9,894**	**2,060**	**(617)**	**(185)**	**11,152**

(1) Includes the necessary modifications with respect to the 2013 interim condensed consolidated financial statements and the annual consolidated financial statements (see Note 2 "*Comparison of information*") in relation to the application of IFRS 11.

Main issues, buybacks and repayments carried out during the first half of 2014

Through its subsidiary Repsol International Finance, B.V. (RIF), the Group has a maximum of €1,500 million Euro Commercial Paper (ECP) Program, arranged on March 26, 2010, which is guaranteed by Repsol S.A. The ECP Program was increased to €2,000 million on October 25, 2010. During the first half of 2014, RIF issued ECP in nominal value by €592 million, USD342 million and GBP5 million, making a total of €847 million. The balance outstanding under this program at June 30, 2014 was €273 million and USD135 million, making a total of €372 million (nominal amounts).

A €1,000 million bond issued by Repsol International Finance, B.V. on March 27, 2009 has matured in March 2014. This bond, which carried a 6.50% coupon, has implied a decline in current financial liabilities and a cash outflow of €1,000 million during the six-month period.

On June 17, 2014, Repsol, S.A. announced the early cancellation of all of the Series I/2013 Simple Bonds issued in 2013 for delivery to the investors accepting its Preference Share Buyback Offer. The cancellation of this liability resulted in the recognition of a €71 million pre-tax loss in the first half of 2014 corresponding to the difference between the bonds' previous carrying amount and their new value as calculated to reflect their early cancellation. In conjunction with payment of the cash due to the holders of the Series I/2013 Simple Bonds, these bonds were derecognized on July 1, 2014, as described in Note 12 "*Subsequent events*".

Main issues, buybacks and repayments carried out during the first half of 2013

On May 28, Repsol International Finance, B.V., with the guarantee of Repsol, S.A. closed a 1,200 million euro 7-year bond at 99.414% issue price, with a coupon of 2.625%, listed on the Luxembourg Stock Exchange. This Bond issue was made under the 10,000,000,000 euro Guaranteed Euro Medium Term Note Program, registered in Luxembourg.

During the first half of 2013, Repsol International Finance B.V. issued €760 million and USD 131 million of commercial paper (ECP) under this program (nominal amounts). The balance outstanding under this program at June 30, 2013 stood at €430 million.

On May 31, 2013, the respective boards of Repsol International Capital Ltd. and Repsol, S.A agreed to launch the following offer consisting of: (i) a voluntary Repurchase Offer in cash of the Series B and C preference shares issued by Repsol International Capital Ltd., in May and December 2001, respectively, and simultaneously, linked to the Repurchase Offer (ii) a public Subscription Offer of Series I/2013 Bonds of Repsol, S.A. for those accepting the Repurchase Offer.

The acceptance of the Repurchase Offer of the preference shares, for both series reached 97.21% of their nominal amount (Series B 97.02% and Series C 97.31%) and the other shares remain outstanding. The total amount paid by Repsol International Capital Ltd. to those accepting the Repurchase Offer was €2,843 million in cash, €1,458 million were applied to subscribing Repsol's bonds, which were admitted to trading on the AIAF fixedincome market, to be quoted on the Electronic System for Debt Trading (abbreviated SEND in Spanish) on July 2, 2013.

At June 30, 2013, the preference shares whose holders had accepted the Repurchase Offer were recognized at fair value in accordance with the conditions established in the Offers at the amount of €2,766 million, of which €1,385 million, corresponding to the repurchase price not pertaining to the subscription of the bond (475 euros per share) which were reclassified in the short term under "C*urrent bonds and other securities*". As a consequence of this transaction, the effect in the income statement represented a pre-tax profit of €76 million, including the effects related to the hedge transactions.

On July 1, 2013, with the cash disbursement made from those accepting the repurchase price, the repurchased preference shares were derecognized from the balance sheet. Simultaneously, the bonds subscribed by the acceptors of the repurchase were recognized under "*Non-current bonds and other securities*".

The table below details the amounts guaranteed by Group companies in the interim periods ending June 30, 2014 and 2013 for issues, repurchases, or redemptions undertaken by associates, jointly controlled entities (for the percentage not included in the consolidation process) or non-Group companies:

GUARANTEED ISSUES
Millions of euros

	Balance at 12/31/2013	(+) Granted	(-) Cancelled	(+/-) Exchange rate and other	Balance at 06/30/2014
Debt security issues guaranteed by the Group (guaranteed amount)	-	-	-	-	-

	Balance at 12/31/2012	(+) Granted	(-) Cancelled	(+/-) Exchange rate and other	Balance at 06/30/2013
Debt security issues guaranteed by the Group (guaranteed amount)	29	-	(1)	(1)	27

c) Fair Value of financial instruments

The classification of the financial instruments recognized in the financial statements at fair value, at June 30, 2014 and December 31, 2013, is as follows:

Millions of euros

	Level 1		Level 2		Level 3		Total	
Financial assets	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**
Financial assets held for trading	-	11	70	29	-	-	70	40
Other financial assets at fair value through profit and loss	97	98	-	-	-	-	97	98
Financial assets available for sale [2]	3	1,164	-	-	-	-	3	1,164
Hedging derivatives		-	-	-	-	-	-	-
Total	**100**	**1,273**	**70**	**29**	**-**	**-**	**170**	**1,302**

	Level 1		Level 2		Level 3		Total	
Financial liabilities	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**	**Jun 2014**	**Dec 2013 [1]**
Financial liabilities held for trading	32	34	175	102	-	-	207	136
Hedging derivatives	-	-	92	58	-	-	92	58
Total	**32**	**34**	**267**	**160**	**-**	**-**	**299**	**194**

Financial instruments recognized at fair value were classified at different levels, as described below:
Level 1: Valuations based on a quoted price in an active market for an identical instrument.
Level 2: Valuations based on a quoted price in an active market for similar financial assets or based on other valuation techniques that rely on observable market inputs.
Level 3: Valuations based on inputs that are not directly observable in the market.

(1) Includes the necessary modifications with respect to the 2013 consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.

(2) Does not include €57 and €59 million at June 30, 2014 and December 31, 2013, respectively, corresponding to investments in share of companies accounted at acquisition cost in accordance with IAS 39 or the shares of YPF Gas S.A. not subject to expropriation (see Note 4 "*Expropriation of the Repsol Group's shares in YPF S.A. and YPF Gas S.A."* in the 2013 consolidated annual financial statements).

The valuation techniques used for the instruments classified under level 2, are based on the income approach, in accordance with accounting regulations, which consist of the discount of future cash flows associated with said instruments (implied forward curves offered in the market, are used to estimate said cash flows in derivatives valuation) including adjustments due to credit risk based on the duration of the instruments.. In the case of options, price-setting models based on the Black & Scholes formula are used.

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

(6) SHAREHOLDER REMUNERATION

The following table details the dividends paid by Repsol, S.A. to its shareholders in the six-month period ended June 30, 2014 and 2013:

	06/30/2014			06/30/2013		
	% of nominal amount	**Euros per share**	**Amount**	**% of nominal amount**	**Euros per share**	**Amount**
Ordinary shares	100%	1.00	1,325	4.00%	0.04	51
Remaining shares (without vote, redeemable, etc)	-	-	-	-	-	-
Total dividends paid				-	-	-
a) Dividends charged to profits	100%	1.00	1,325	4.00%	0.04	51
b) Dividends charged to reserves or share premium issues	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

The remuneration received by shareholders in the six-month period ended June 30, 2014 corresponds to the extraordinary interim dividend from 2014 profits, €1 gross per each outstanding share of the Company with remuneration rights, and was paid on June 6, 2014.

The remuneration received by shareholders in 2013 includes the payment of a final dividend for 2013 of 0.04 euros per share, paid on June 20, 2013 to each of the outstanding shares of the Company entitled to retribution.

Additionally, the Company’s shareholders were also remunerated by means of the denominated “Repsol Flexible Dividend” whose main characteristics are described in section “*f Equity - 1. Share capital and Reserves*” in Note 3 and whose figures are compiled in the following chart:

	No. of free-of-charge allocation rights sold to Repsol	Committed purchase price (€/right)	Cash disbursement (millions of euros)	New shares issued	Remuneration in shares (millions of euros)
December 2012/ January 2013	389,278,581	0.473	184	26,269,701	410
June/July 2013	521,556,172	0.445	232	20,023,479	339
December 2013/ January 2014	486,839,688	0.477	232	22,044,113	389
June/July 2014	320,017,594	0.485	155	25,756,369	487

(7) TAX SITUATION

For the calculation of this period's corporate income tax, the effective tax rate that would be applicable to the total profits expected for the yearly period was used, so that the tax expense for the interim period is the result of applying the estimated average effective tax rate for the year to the result before taxes in the interim period. However, the tax effects derived from occasional events or unique transactions undertaken during the period are fully taken into account in the period.

The effective tax rate for the first half of 2014 applicable to continuing operations was estimated at 39%, which is lower than the estimate for the same period last year (52%), mainly due to a declining business, resulting in a high tax burden on the *Upstream*.

(8) RELATED PARTY TRANSACTIONS

Repsol undertakes transactions with related parties under general market conditions. For the purposes of presenting this information, the following are considered to be related parties:

a. Significant Shareholders: according to the latest information available, the significant shareholders of the Company, deemed related parties of Repsol are:

Significant shareholders	% of share capital at June 30, 2014[(1)]
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona [(2)]	11.83
Sacyr Vallehermoso, S.A. [(3)]	9.23
Temasek Holdings (Private) Limited [(4)]	6.26

(1) Data prior to the close of the paid-up capital increase issue detailed in section *"f) Equity – 1. Share capital and reserves"* of Note 3.
(2) Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona holds its interest through CaixaBank, S.A., a company in which it in turn has a 60.504% shareholding.
(3) Sacyr Vallehermoso, S.A. holds its stake through Sacyr Vallehermoso Participaciones
(4) Temasek holds its stake through Chembra Investment PTE, Ltd.

The data provided in the table above reflect the latest information available to Repsol, S.A. as of June 30, 2014 coming from the most recent information furnished by the "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U." (Securities Registration, Clearing, and Liquidation Systems Management Company, (also referred to as Iberclear) and the information provided by the shareholders to the Company and to the Spanish securities market regulator, the CNMV.

PEMEX ceased to be a significant shareholder on June 3, 2014 as a result of the sale of shares of Repsol, S.A. representing 7.86% of the Company's share capital as of the transaction date. On June 4, 2014, Pemex Internacional España S.A.U. (a subsidiary of the PEMEX Group) notified the Company of its resignation from the Board of Directors of Repsol; since that date PEMEX is no longer considered a related party of Repsol.

b. Executives and Directors: includes members of the Board of Directors and of the Executive Committee.

c. Persons, companies or Group entities: includes operations with companies or entities in the Group which have not been eliminated during the consolidation process. These are mainly transactions with integrated companies by the equity method.

Income, expenses and other transactions recorded in six-month period ended June 30, 2014 with related parties were as follows:

EXPENSE AND INCOME Thousands of euros	June 30, 2014 Major shareholders	Executive and Directors [1]	Group companies or entities	Total
Financial expenses	16,639	-	16,111	32,750
Transfer of R&D and license agreements	-	-	-	-
Operating leases	699	-	1,085	1,784
Receipts from services	5,342	-	158,109	163,451
Purchase of goods (finished or in progress) [2]	1,514,589	-	3,212,798	4,727,387
Other expenses	4,157	-	399	4,556
EXPENSES	**1,541,426**	**-**	**3,388,502**	**4,929,928**
Financial income	16,283	1	25,161	41,445
Management or cooperation agreements	-	-	2,472	2,472
Transfer of R&D and license agreements	-	-	1	1
Leases	370	-	-	370
Provision of services	4,039	-	982	5,021
Sale of goods (finished or in progress)	47,947	-	346,287	394,234
Other income	232	-	47,344	47,576
INCOME	**68,871**	**1**	**422,247**	**491,119**

OTHER TRANSACTIONS Thousands of euros	June 30, 2014 Major shareholders	Executive and Directors[1]	Group companies or entities	Total
Finance agreements: credits and capital contributions (lender)	587	88	1,049,369	1,050,044
Disposal of property, plant and equipment, intangible or other assets	19,413	-	-	19,413
Finance agreements: credits and capital contributions (lessor) [3]	474,867	-	2,386,523	2,861,390
Guarantees given	43,841	-	1,415,349	1,459,190
Guarantees received	30,802	-	106	30,908
Commitments acquired [4]	117,992	-	8,218,403	8,336,395
Cancelled commitments/guarantees	-	-	-	-
Dividends and other profit distributed [5]	552,578	878	-	553,456
Other transactions [6]	1,698,871	-	-	1,698,871

(1) Includes transactions performed with executives and directors not included in Note 11 regarding remuneration received by executives and directors, corresponding to the outstanding balance at the reporting date of the loans granted to members of senior management and the corresponding accrued interest, as well as dividend and other remuneration received as a result of holding shares in the Company.

(2) These purchases include those made under the umbrella of the evergreen oil offtake agreement signed with the Pemex Group until June 4, 2014 (which is when PEMEX ceased to be considered a related party), which amounted to 164,000 barrels per day in 2014.

(3) Includes the drawdown limit of €345 million on credit lines extended by La Caixa.

(4) Corresponds to firm purchase commitments net of firm sales commitments outstanding at the reporting date. Does not include any commitments with PEMEX at June 30, 2014; commitments with PEMEX at June 30, 2013 amounted to €677 million.

(5) The amounts recorded as dividends and other profit distributed to significant shareholders, directors and executives in the table above include the payment of an interim cash dividend of €1 per share against 2014 profit, which was paid out on June 6, 2014, as well as the amounts corresponding to the sale to Repsol, at the guaranteed fixed price, of free-of-charge allocation rights as part of the paid-up capital increase closed in January 2014 under the framework of the remuneration program named “Repsol Flexible Dividend”. In contrast, this sub-heading does not include the amounts corresponding to the sale to Repsol, at the guaranteed fixed price, of free-of-charge allocation rights as part of the paid-up capital increase closed in July 2014, which in the case of the significant shareholders amounted to €100 million. Nor does it include the shares acquired as a result of the aforementioned capital increase.

(6) Includes remunerated accounts and deposits in the amount of €1,044 million, exchange rate hedges in the amount of €258 million and interest rate hedges in the amount of €66 million arranged with La Caixa Group.

Income and expenses, as well as other transactions, recorded during the first half of 2013 in respect of transactions with related parties have been as follows:

EXPENSES AND INCOME: Thousands of euros	June 30, 2013 (1)			
	Major shareholders	Directors and executives (3)	Persons, companies or entities within the Group (2)	Total
Finance expenses	19,737	-	21,141	40,878
Transfer of R&D and licenses agreements	-	-	43	43
Operating leases	763	-	1,150	1,913
Receipts from services	5,775	-	219,976	225,751
Purchase of goods (finished or in progress) (4)	1,983,587	-	3,806,633	5,790,220
Loss from the removal or sale of assets	-		-	-
Other expenses	4,640	-	7,336	11,976
EXPENSES	**2,014,502**	**-**	**4,056,279**	**6,070,781**
Finance income	13,385	1	18,299	31,685
Management or cooperation agreements	-	-	2,449	2,449
Transfer of R&D and licenses agreements	-		1,725	1,725
Dividends received	-		-	-
Operating leases	670	-	-	670
Services rendered	13,952	-	21,373	35,325
Sale of goods (finished or in progress)	38,248	-	609,497	647,745
Profit from the removal or sale of assets	-	-	115	115
Other income	109	-	71,474	71,583
INCOME	**66,364**	**1**	**724,932**	**791,297**

OTHER TRANSACTIONS Thousands of euros	June 30, 2013 (1)			
	Major shareholders	Directors and executives (3)	Persons, companies or entities within the Group (2)	Total
Finance agreements: credits and capital contribution (lender)	-	46	795,089	795,135
Sale of tangible, intangible or other assets	-	-	-	-
Finance agreements: credits and capital contributions (borrower) (5)	430,790	-	2,773,832	3,204,622
Guaranteed given	128,072	-	1,139,616	1,267,688
Guarantees received	15,579	-	46	15,625
Commitments acquired (6)	685,453	-	20,264,048	20,949,501
Commitments/ guaranties cancelled	47,418	-	15,385	62,803
Dividends and other distributed profit (7)	151,085	30	-	151,115
Other transactions (8)	1,071,894	-	-	1,071,894

(1) Includes the necessary modifications with respect to the 2013 interim condensed consolidated financial statements (see Note 2 *"Comparison of information"*) in relation to the application of IFRS 11.

(2) The tables include the transactions performed with the companies forming part of the scope of the sale of the LNG businesses to Shell (see Note 3 of the 2013 consolidated annual financial statements), the most significant of which are: (i) Expenses for services received of €57 million; (ii) Goods purchased for €820 million; (iii) Income from services rendered of €20 million; (iv) Income from the sale of goods of €164 million; and (v) Other income of €21 million.

(3) Includes transactions performed with executives and directors not included in Note 11, which itemizes the remuneration received by executives and directors, corresponding to the outstanding balance at the reporting date of the loans granted to members of senior management and the corresponding accrued interest, as well as dividend and other remuneration received as a result of holding shares in the Company.

(4) These purchases include those made in accordance with the oil purchase agreement signed with the Pemex Group, which amounted to 100,000 barrels per day in 2013.

(5) Includes the drawdown limit of €345 million on credit lines extended by La Caixa.

(6) Corresponds to purchase commitments net of sales commitments outstanding at the reporting date. The column "Persons, companies or entities within the Group" includes commitments with companies forming

part of the scope of the sale of the LNG assets and businesses that were derecognized during the second half of 2013.

(7) The amounts recorded as dividends and other profit distributed to significant shareholders, directors and executives in the table above include the payment of a cash dividend of €0.04 per entitled share (gross), which was paid out on June 20, 2013, as well as the amounts corresponding to the sale to Repsol, at the guaranteed fixed price, of free-of-charge allocation share rights as part of the paid-up capital increase closed in January 2013, under the framework of the remuneration program named "Repsol Flexible Dividend" . In contrast, it does not include the amounts corresponding to the sale to Repsol, at the guaranteed fixed price, of free-of-charge allocation rights as part of the paid-up capital increase closed in July 2013, which in the case of the significant shareholders amounted to €187 million. These rights were recognized as an account payable at June 30, 2013. Nor does it include the shares acquired as a result of the aforementioned paid-up capital increase.

(8) Includes remunerated accounts and deposits in the amount of €411 million, exchange rate hedges in the amount of €374 million and interest rate hedges in the amount of €71 million arranged with La Caixa Group.

(9) CONTINGENCIES AND GUARANTEES

The information herein updates the status of certain legal or arbitration proceedings and guarantees having undergone relevant changes since the preparation of the 2013 consolidated financial statements, in which this information is included under Note 34 "*Contingencies, commitments and guarantees*".

Litigation

Main procedures initiated as a consequence of the expropriation of the Group's shares in YPF S.A. and YPF Gas S.A

In accordance with the commitments assumed by Repsol in the Agreement, Repsol has dismissed, among others, the following legal, administrative and arbitration proceedings, that were described in Note 34 of the audited consolidated financial statements of the Group for the financial year ended 31 December 2013:

- *Arbitration against the Republic of Argentina before the ICSID under the jurisdiction of the Agreement for the Reciprocal Promotion and Protection of Investments between the Spanish kingdom and the Republic of Argentina.*

- *Lawsuit claiming unconstitutionality of the intervention in YPF by the Argentine government and the "temporary occupation" by the Argentine government of the rights attaching to the expropriated shares of YPF S.A. and YPF Gas S.A. held by the Repsol Group.*

- *"Class Action Complaint" filed before the New York Southern District Court regarding the Argentinian state's failure to comply with its obligation to launch a tender offer for YPF shares before taking control of YPF.*

- *Lawsuit filed with the New York Southern District Court for the failure of YPF to present form 13D as obliged by the Securities and Exchange Commission (SEC) due to intervention by the Argentinian State.*

Argentina

The following lawsuits to which Repsol is party in Argentina have experienced certain updates, as follows:

- *Claims brought by former YPF employees (Share Ownership Plan) -"Karcz, Miguel Ángel and another against Repsol S.A., YPF S.A.- Argentinian State/Declaratory judgment action".*

  The judge lifted the injunction in place on April 16, 2014. This decision has been appealed by the plaintiff; however, the appeal has not had any effect on the lifting of the injunction as the appeal was granted without suspensory effects.

- *Preliminary injunction filed by López, Osvaldo Federico and others against Repsol, S.A. (Dossier # 4444).*

  On March 18, 2014, the judge dismissed the "amparo" proceedings for the protection of constitutional rights (in the main case) and lifted the injunction stipulating the restriction of any funds which Repsol received as compensation for the expropriation which may have been ordered by the National Court of Appraisals. This decision has been appealed by the plaintiff. On July 7, 2014, the Chamber of Appeals of the Province of Tierra del Fuego rejected the appeal and ratified the Court Of First Instance's decision, dismissing the "Amparo" proceedings, and lifting the injunction.

- *Claim filed against Repsol and YPF by the Union of Consumers and Users*

  Currently, the case is set for judicial decision since 10 February 2014, including a motion to render judgment thereon.

Spain

On May 9, 2014, Repsol Butano, S.A. was notified of three sentences issued by the Contentious Administrative Court of the National High Court ("Audiencia Nacional") awarding Repsol Butano, S.A. the right of being compensated for the damages caused by the quarterly resolutions issued by the Directorate-General of Energy and Mining Policy determining the maximum retail prices for regulated LPG containers for the second, third and fourth quarters of 2011 and the first quarter of 2012 totaling €63.9 million of principal plus the corresponding late payment interest legally due.

In those sentences, the National High Court declares the existence in these cases of the elements that determine the public administration pecuniary liability and also confirms the quantification of the damages caused by the quarterly resolutions appealed by Repsol Butano, S.A. as stated by the independent experts designated by Repsol Butano, S.A. and the Court.

Even though the State Attorney's Office has announced further appeal in cassation, the fact is that the government did not contend at the National High Court the public administration pecuniary liability but rather questioned the assessment and quantification of the damages with arguments that have been individually dismissed on substantiated grounds by the above mentioned sentences upholding our claims.

Such reasoning of the National High Court, along with the arguments raised by Repsol Butano to defend its claim, make it highly probable that the abovementioned High Court sentences will be upheld by the Supreme Court.

United States of America

- *The Passaic River / Newark Bay clean up lawsuit.*

By virtue of the *Settlement Agreement*, the original defendants (except Occidental) obtained some additional protection against future potential litigation. The *Settlement Agreement* was approved by the Court of New Jersey. In January 2014, Occidental appealed the court's ruling approving the aforementioned *Settlement Agreement*; however, this appeal was denied

Guarantees and commitments

In connection with the loan extended by Banco Santander to Grupo Petersen in June 2008, on Repsol enforced on May 8, 2014, in its capacity as guarantor, the pledge over the YPF S.A. shares that had been pledged as counter guarantee (see Note 4 of the 2013 consolidated annual financial statements).

In connection with the sale of the LNG assets to Shell (see Note 2 "*Changes in the Group's composition*"), the Group holds a guarantee given to Gas Natural Fenosa securing performance of its obligations under its supply agreement between Shell Spain LNG SAU (previously Repsol Comercializadora de Gas, S.A.) and Gas Natural SDG.

During the first half of 2014, the Group awarded a guarantee in respect of its interest in Cardón IV covering the risk of confiscation, expropriation, nationalization or any other measure designed to restrict the use of the drilling unit attributable directly to the Venezuelan government or acts of insurrection or terrorism for up to USD90 million.

During the first half of 2014, the Group committed to invest €254 million to develop the gas production field in Sagari (Block 57), Peru.

(10) AVERAGE HEADCOUNT

The average employee headcount at June 30, 2014 and 2013 was:

	06/30/2014	06/30/2013 [1]
AVERAGE HEADCOUNT		
Men	16,125	16,094
Women	7,686	7,505
	23,811	**23,599**

[1] Includes the necessary modifications with respect to the 2013 interim condensed consolidated financial statements (see Note 2 "*Comparison of information*") in relation to the application of IFRS 11.

(11) COMPENSATIONS

A) Director and executive compensation

During the first half of 2014 a total of 17 members (16 natural persons and one corporate person) have been, at some point, part of the Board of Directors.

A total of 9 people were members of the Group's Executive Committee during the same period. For reporting purposes, in this section Repsol deems "executive personnel" to be the members of the Executive Committee. This consideration, made purely for reporting purposes, herein, neither substitutes nor sets a benchmark for interpreting other senior management concepts applicable to the Company under prevailing legislation (such as Royal Decree 1382/1985), nor does it have the effect of creating, recognizing, amending or extinguishing any existing legal or contractual rights or obligations.

The following is a breakdown of compensation paid during the first six months of 2014 to Directors and members of the Executive Committee who at some point during the period held said position. Unless indicated to the contrary, the compensation figures provided for "executives" do not include the compensation accrued in their capacity as directors of Repsol, S.A., as the director compensation disclosures for these individuals is included in the section on "directors".

The information provided for the interim period of 2013 is prepared using the same criteria for comparative purposes.

DIRECTORS [(1)]

	Thousands of euros	
Compensation:	**06/30/2014**	**06/30/2013**
Fixed compensation	2,017	1,896
Variable compensation	1,350	1,511
Bylaw stipulated remunerations	2,627	2,436
Others [(2)]	333	59
Total	**6,327**	**5,902**

EXECUTIVES

	Thousands of euros	
	06/30/2014	**06/30/2013**
Total compensation received by executives [(2)]	**6,147**	**6,076**

(1) The composition and number of members of the Board of Directors varied between 2013 and 2014.

(2) Includes settlement of the first cycle of the loyalty plan, participation in the share acquisition plans and in-kind benefits received. In-kind benefits include the corresponding payments on account.

In the first half of 2014 the accrued cost of the retirement, disability, and death insurance policies for Board members, including the corresponding tax payments on account, amounts to €206 thousand (€195 thousand in the first half of the previous year); and the contributions to pension plans and long-service bonuses amounts to €149 thousand (€598 thousand for the same period in the previous year).

The contributions made by the Group in the first half of 2014 to the executives' pension plans, the contributions to executives' prevision plans, and insurance policy premiums covering disability and death (in this case including the corresponding tax payments on account) totaled €1,186 thousand (€1,110 thousand in the first half of the previous year).

B) Loyalty plans and share acquisition plans

The following is an update during the first six months of 2014 of Repsol, S.A.'s share plans approved by the Shareholders´ Meeting, and included in the 2013 consolidated financial statements:

i.) "*Loyalty share program*"

Repsol has a "Plan for Delivery of Shares to Beneficiaries of the Pluri-Annual Remuneration Program."

A total of 218 employees and executives took part in the fourth cycle of the Plan (2014-2017), having acquired a total of 150,271 shares with an average price of €20.7244 per share on May 30, 2014. Consequently, the Group is committed to deliver a maximum of 50,026 shares to those employees who fulfill the Plan requirements after the three year vesting period ends.

During this fourth cycle, the current members of the Executive Committee members had acquired a total of 55,060 shares. Considering the total number of shares acquired during the second cycle (amounted to 131,395 shares) and during the third cycle (amounted to 77,155 shares), Repsol would be committed to delivering 43,795 shares when the second cycle's vesting period ends, 25,716 shares when the third ends and 18,351 shares when the fourth finishes. This commitment is subject to the compliance with the remaining Plan requirements.

At June 30, 2014 personnel expenses totaling €0.7 million in relation to the first, second, third and fourth cycle of the Plan have been recorded, with a balancing entry of *"Retained earnings and other reserves"* in equity. Personnel expenses amounting €0.6 million related to the first three cycles, were recorded in the first half of the prior fiscal year.

Additionally, the first cycle of the plan vested on May 31, 2014. As a result, the rights of 322 beneficiaries to 69,162 shares vested (receiving a total of 57,146 shares net of the payment on account to be paid by the Company). Under the terms of the Plan, the corresponding additional shares, valued at €20.905 per share, were delivered to the beneficiaries on June 5, 2014. In parallel, the rights of the members of the Executive Committee (including those that are also Directors) to 26,537 shares also vested. Net of the withholding retained by the Company, these individuals received a total of 18,594 shares.

ii.) *"Share Acquisition Plan"*

These plans are targeted at executives and employees of the Repsol Group in Spain and are designed to enable those to wishing to receive a portion of their remuneration in Repsol, S.A. shares up to an annual limit equal to the number of shares whose monetary equivalent, in accordance with the current tax legislation in each year and territory, is not considered taxable income for personal income tax purposes.

During the first half of 2014 and 2013, and in accordance with in the information included in Note 3, section *f) "Equity - 2. Share capital and Reserves"*, the Group has purchased 199,839 and 205,785 treasury shares for €3.7 million and €3.5 million respectively, to be delivered to Group employees.

During the first half of 2014, Members of the Executive Committee, in accordance with the terms provided in the Plan, received a total of 290 shares.

The shares to be delivered under both schemes, i) and ii), may consist of directly or indirectly held treasury shares of Repsol, new issuance shares or shares acquired from third parties under agreements entered into to cover the delivery commitments assumed.

(12) SUBSEQUENT EVENTS

On July 1, 2014, the Company redeemed Series I/2013 Simple Bonds ahead of maturity (see section b.2) "*Bonds and other marketable securities*" in Note 5). The bonds were repaid in cash at par, free of charges and in accordance with all the legal terms and conditions stipulated in the Securities Note approved by and registered with the CNMV on June 4, 2013.

Repsol, S.A. paid the bondholders €1,458,191,000 in the form of principal (€500 per bond) and €12,759,171.25 in respect to the ordinary gross coupon (€4.375 per bond).

(13) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These interim condensed consolidated financial statements are prepared on the basis of IFRSs, as endorsed by the European Union, and Article 12 of Royal Decree 1362/2007 (see Note 2). Consequently, certain accounting practices applied by the Group may not conform with other generally accepted accounting principles in other countries.

APPENDIX I: MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

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

Name of the entity (or business activity) acquired/absorbed	Type of transaction	Transaction close date	Consideration (net) paid + other costs directly attributable to the business combination (millions of euros)	Fair value of the equity instruments issued to acquire the acquiree (millions of euros)	% of voting rights acquired (1)	% of total voting rights acquired in the entity post - acquisition
Repsol Angostura Limited	Constitution	feb-14	-	-	100.0%	100.0%
Repsol Trading Perú S.A.C.	Constitution	mar-14	-	-	100.0%	100.0%
Repsol St. John LNG, S.L.	Constitution	jun-14	-	-	100.0%	100.0%
Repsol Trading Singapore Pte Ltd.	Constitution	jun-14	-	-	100.0%	100.0%
Principle Power Inc.	Increase shareholding	may-14	1	-	0.81%	34.4%

(1) Corresponds to the equity shareholding in the acquired company.

b) Reduction in interest in subsidiaries, join ventures, and/or associates and other similar transactions (1)

Name of the entity (or business activity) sold, split or retired	Type of transaction	Effective date of the operation	% of voting rights sold or retired	% of voting rights acquired in the entity post-acquisition	Income / Loss generated (Millions of euros)(3)
Repsol Comercializadora de Gas, S.A. (2)	Sale	ene-14	100.0%	0.0%	432
Transportadora de Gas del Perú (TGP) (2)	Sale	mar-14	10.0%	0.0%	57
Orisol Corporación Energética, S.A.	Sale	may-14	46.8%	0.0%	-
Algaenergy, S.A.	Sale	jun-14	20.0%	0.0%	-
Kuosol Agrícola S.A.P.I. de C.V.	Sale	ene-14	50.0%	0.0%	-
Repsol YPF Trading y Transporte Singapur, Ltd.	Liquidation	abr-14	100.0%	0.0%	-
Empresa Petrolera Maxus Bolivia, S.A. (4)	Merge	feb-14	100.0%	0.0%	-

NOTE: With respect to the decreases, increases and changes in ownership interests in the Gas Natural Fenosa Group's companies, see this group's consolidated interim financial statements (www.portal.gasnatural.com).

(1) Does not include the companies which are now accounted for using the equity method under IFRS 11.
(2) See Note 2 "Changes in the Group's composition".
(3) Corresponds to pre-tax gains, with the exception of the TGP gain, which is recognized within "*Share of results of entities accounted for using the equity method*" net of taxes.
(4) This company was removed from the consolidation scope in February 2014 in the wake of its merger into Repsol E&P Bolivia, S.A.

APPENDIX II: REGULATORY FRAMEWORK

The information provided in this section constitutes an update designed to reflect significant developments in the regulatory framework applicable to the Group subsequent to authorization of the 2013 consolidated financial statements for issue, as detailed in Appendix III "*Regulatory Framework*".

<u>*Spain*</u>

Liquid hydrocarbons, oil and oil derivatives

The prices of oil derivatives are deregulated, with the exception of LPG which is, under certain circumstances, subject to retail maximum price. The prices of bulk LPG and bottled LPG in cylinders with capacity under 8 kilograms or over 20 kilograms are deregulated.

Spanish Royal Decree-Law 8/2014, of July 4 2014, on urgent measures for growth, competitiveness and efficiency, has had the effect of deregulating the prices of LPG containers with capacity of between 8 kilograms or more and less than 20 kilograms whose tare is no more than 9 kilograms, with the exception of containers holding mixes for LPG fuel purposes.

Under this piece of legislation, the obligation to provide home delivery of containers with loads of between 8 and 20 kilograms incumbent upon the LPG wholesalers with the biggest market shares in the mainland and island territories continues to apply. The list of Bound Operators itemized in the legislation encompasses Repsol Butano, S.A. on the mainland and in the Balearics, DISA in the Canaries and ATLAS in Ceuta y Melilla. In the event that these Operators do not have containers with a tare of over 9 kilograms, the obligation to provide home delivery of LNG at regulated prices will extend to containers with a tare of less than 9 kilograms in the corresponding region.

In addition, the Spanish Royal Decree includes energy efficiency measures including the creation of an Energy Efficiency Fund to which gas and power suppliers, oil product wholesalers and the liquid petroleum gas wholesalers must make an annual contribution, this requirement therefore affecting LPG and fuel.

The retail marketing of LPG can be freely made by any person or entity.

Regulation of the electricity sector in Spain

In recent years, the Spanish government has passed a series of laws with the aim of modifying and reducing the premium remuneration awarded to certain classes of power generation assets.

Spanish Royal Decree Law 1/2012, of January 27, 2012, eliminated the financial incentives for new special regime generation plants and for ordinary regime plants using technology akin to the technologies governed by the special regime.

As provided in the Electricity Act, Law 24/2013 of December 26, 2013, enacted on June 6, 2014, the Spanish Cabinet passed Royal Decree 413/2014 (published in the Official State Journal, or BOE for its acronym in Spanish, on June 10) regulating the generation of electricity from renewable energy sources, cogeneration and waste. The purpose of this legislation is to regulate the legal and financial framework applicable to this business. This new regime affects the Repsol Group's co-generation facilities, part of the now defunct 'special' regime and assimilated ordinary regime. The new regime is based on the necessary participation of these facilities in the market, complimenting the market-driven revenue with a specific regulated payment designed to enable them to compete on an even footing with the rest of the technologies in the marketplace, compensating owners for the costs that, unlike conventional generation technologies, cannot be recouped in the market in order to enable them to earn an adequate return on their investment by using metrics that are tailored for the various standard facilities.

Lastly, Ministerial Order IET/1045/2014, of June 16, 2014, published in the Official State Journal on June 20, 2014, contains the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

Bolivia

On May 1, 2006, Supreme Decree 28,701 (the “Nationalization Decree”) was published, which nationalized the country’s oil and gas and transferred ownership and control to the Bolivian state company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). Furthermore, the shares required to enable YPFB to control at least 50% plus one vote in different companies, among them Empresa Petrolera Andina, S.A., currently known as YPFB Andina S.A. (YPFB Andina), were nationalized.

Subsequently, Law No. 466 of December 26, 2013 stipulated that YPFB Andina take the form of a mixed-capital public limited company (abbreviated SAM in Spanish), requiring YPFB to take as many steps as needed to acquire 51% of YPFB Andina, in order to comply with paragraph II of article 363 of the State’s Political Constitution.

Given that YPFB currently holds 50.408% of the share capital of YPFB Andina, it will only have to acquire 0.592% of the Company’s shares to comply with its obligations under the aforementioned law.

APPENDIX III: RESTATEMENT OF THE 2013 BALANCE SHEET, INCOME STATEMENT AND STATEMENT OF CASH FLOWS

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

Consolidated balance sheet at December 31, 2013

	Millions of euros		
	Stated		Restated [1]
ASSETS	**12/31/2013**	**Change**	**12/31/2013**
Intangible Assets:	5,325	(3,596)	1,729
a) Goodwill	2,648	(2,158)	490
b) Other intangible assets	2,677	(1,438)	1,239
Property, plant and equipment	26,244	(10,218)	16,026
Investment property	24	-	24
Investment accounted for using the equity method	412	9,928	10,340
Non-current assets held for sale subject to expropriation	3,625	-	3,625
Non-current financial assets	1,802	86	1,888
Deferred tax assets	4,897	(818)	4,079
Other non-current assets	253	(193)	60
NON-CURRENT ASSETS	**42,582**	**(4,811)**	**37,771**
Non current assets held for sale	1,851	(159)	1,692
Inventories	5,256	(318)	4,938
Trade and other receivables	7,726	(2,791)	4,935
a) Trade receivables	5,621	(2,402)	3,219
b) Other receivables	1,634	(304)	1,330
c) Income tax assets	471	(85)	386
Other current assets	144	(3)	141
Other current financial assets	93	261	354
Cash and cash equivalents	7,434	(1,718)	5,716
CURRENT ASSETS	**22,504**	**(4,728)**	**17,776**
TOTAL ASSETS	**65,086**	**(9,539)**	**55,547**

[1] Includes the necessary modifications with respect to the consolidated financial statements for the year ended December 31, 2013 in relation to the application of IFRS 11 (see Note 2 *"Basis of presentation"*).

Repsol, S.A. and investees comprising the Repsol Group
Consolidated balance sheet at December 31, 2013

	Millions of euros		
	Stated		Restated [1]
LIABILITIES AND EQUITY	**31/12/2013**	**Change**	**31/12/2013**
NET EQUITY			
Issued share capital	1,324	-	1,324
Share premium	6,428	-	6,428
Legal Reserve	259	-	259
Treasury shares and own equity instruments	(26)	-	(26)
Retained earnings and other reserves	19,785	-	19,785
Total net income attributable to the the parent	195	-	195
Dividends and remunerations	(232)	-	(232)
EQUITY	**27,733**	**-**	**27,733**
Financial assets available for sale	488	-	488
Other financial instruments	-	-	-
Hedge transactions	(60)	-	(60)
Translation differences	(954)	-	(954)
ADJUSTMENTS FOR CHANGES IN VALUE	**(526)**	**-**	**(526)**
EQUITY ATTRIBUTABLE TO THE PARENT	**27,207**	**-**	**27,207**
MINORITY INTERESTS	**713**	**(470)**	**243**
TOTAL EQUITY	**27,920**	**(470)**	**27,450**
Grants	66	(56)	10
Non-current provisions	3,625	(925)	2,700
Non-current financial liabilities:	13,125	(4,656)	8,469
a) Bank borrowings, bonds and other securities	13,053	(4,640)	8,413
b) Other financial liabilities	72	(16)	56
Deferred tax liabilities	3,352	(1,486)	1,866
Other non-current liabilities	2,179	(503)	1,676
NON-CURRENT LIABILITIES	**22,347**	**(7,626)**	**14,721**
Liabilities related to non-current assets held for sale	1,533	(76)	1,457
Current provisions	303	(54)	249
Current financial liabilities:	4,519	1,314	5,833
a) Bank borrowings, bonds and other securities	4,464	1,316	5,780
b) Other financial liabilities	55	(2)	53
Trade payables and other payables:	8,464	(2,627)	5,837
a) Trade payables	4,115	(1,527)	2,588
b) Other payables	4,056	(942)	3,114
c) Current income tax liabilities	293	(158)	135
CURRENT LIABILITIES	**14,819**	**(1,443)**	**13,376**
TOTAL EQUITY AND LIABILITIES	**65,086**	**(9,539)**	**55,547**

[1] Includes the necessary modifications with respect to the consolidated financial statements for the year ended December 31, 2013 in relation to the application of IFRS 11 (see Note 2 *"Basis of presentation"*).

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

Consolidated income statement corresponding to the period ended June 30, 2013

	Millions of euros		
	Stated		Restated (1)
	06/30/2013	**Change**	**06/30/2013**
Sales	28,362	(5,455)	22,907
Services rendered and other income	782	(295)	487
Changes in inventories of finished goods and work in progress inventories	(343)	46	(297)
Income from reversal of impariment losses and gains on disposal of noncurrent assets	10	(2)	8
Allocation of grants on non-financial assets and other grants	7	(7)	-
Other operating income	426	(26)	400
OPERATING REVENUE	**29,244**	**(5,739)**	**23,505**
Supplies	(21,904)	3,097	(18,807)
Personnel expenses	(1,018)	189	(829)
Other operating expenses	(3,029)	724	(2,305)
Depreciation and amortization of non-current assets	(1,236)	511	(725)
Impairment losses recognized and losses on disposal of non-current assets	(66)	22	(44)
OPERATING EXPENSES	**(27,253)**	**4,543**	**(22,710)**
OPERATING INCOME	**1,991**	**(1,196)**	**795**
Finance income	69	(16)	53
Finance expenses	(509)	141	(368)
Changes in the fair value of financial instruments	48	1	49
Net exchange gains/ (losses)	(69)	14	(55)
Impairment losses recognized and losses on disposal of financial instruments	76	-	76
FINANCIAL RESULT	**(385)**	**140**	**(245)**
Share of results of companies accounted for using the equity method-net of tax	**74**	**330**	**404**
NET INCOME BEFORE TAX	**1,680**	**(726)**	**954**
Income tax	(717)	(432)	(285)
Net income from continuing operations	**963**	**294**	**669**
Net income from continuing operations attributable to minority	(18)	(34)	16
NET INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE PARENT	**945**	**(260)**	**685**
Net income for the period from discontinued operations after taxes	**(44)**	**260**	**216**
Net income from discontinued operations attributable to minority interests	-	-	-
NET INCOME FOR THE PERIOD FROM DISCONTINUED OPERATIONS ATRIBUTTABLE TO THE PARENT	**(44)**	**260**	**216**
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	**901**	**-**	**901**

(1) Includes the necessary modifications with respect to the consolidated condensed interim financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses (see Note 2 *"Basis of presentation"*).

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

Consolidated cash flow statement corresponding to the period ended June 30, 2014

	Millions of euros		
	Stated		Restated [2]
	06/30/2013	**Change**	**06/30/2013**
Net income before tax	**1,680**	**(726)**	**954**
Adjustments to net income:	**1,696**	**(1,036)**	**660**
Depreciation and amortization of non-current assets	1,236	(511)	725
Other adjustments to results (net)	460	(525)	(65)
Changes in working capital	**(158)**	**86**	**(72)**
Other cash flows from operating activities:	**(628)**	**306**	**(322)**
Dividends received	51	119	170
Income tax received / (paid)	(616)	176	(440)
Other proceeds from / (payments for) operating activities	(63)	11	(52)
Cash flows from operating activities [1]	**2,590**	**(1,370)**	**1,220**
Payments for investing activities:	**(1,911)**	**807**	**(1,104)**
Group companies, associates and business units	(157)	27	(130)
Property, plant and equipment, intangible assets and investment properties	(1,553)	683	(870)
Other financial assets	(201)	97	(104)
Proceeds from disvestments:	**377**	**(230)**	**147**
Group companies, associates and business units	137	(3)	134
Property, plant and equipment, intangible assets and investment properties	23	(10)	13
Other financial assets	217	(217)	-
Other cash flows	-	-	-
Cash flows used in investing activities [1]	**(1,534)**	**577**	**(957)**
Proceeds from/ (payments for) equity instruments:	**1,025**	**-**	**1,025**
Acquisition	(37)	-	(37)
Disposal	1,062	-	1,062
Disposals of ownership interests in subsidiaries without loss of control	-	-	-
Proceeds from / (payments for) financial liabilities:	**617**	**(20)**	**597**
Issues	3,950	(1,162)	2,788
Return and depreciation	(3,333)	1,142	(2,191)
Payments for dividends and payments on other equity instruments	**(281)**	**43**	**(238)**
Other cash flows from financing activities:	**(592)**	**112**	**(480)**
Interest payments	(512)	156	(356)
Other proceeds from/ (payments for) financing activities	(80)	(44)	(124)
Cash flows used in financing activities [1]	**769**	**135**	**904**
Effect of changes in exchange rates	(21)	9	(12)
Net increase / (decrease) in cash and cash equivalents	**1,804**	**(649)**	**1,155**
Cash Flows from operating activities from discontinued operations	(11)	446	435
Cash Flows from investment activities from discontinued operations	-	16	16
Cash Flows from financing activities from discontinued operations	(3)	(99)	(102)
Effect of changes in exchange rates from discontinued operations	-	(2)	(2)
Net increase / (decrease) in cash and discontinued operations	**(14)**	**361**	**347**
Cash and cash equivalents at the beginning of the year	5,903	(1,795)	4,108
Cash and cash equivalents at the end of the year	7,693	(2,083)	5,610
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**06/30/2013**		**06/30/2013**
(+) Cash and banks	6,041	(816)	5,225
(+) Other financial assets	1,652	(1,267)	385
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**7,693**	**(2,083)**	**5,610**

(1) Corresponds to cash flows from continuing operations.

(2) Includes the necessary modifications with respect to the consolidated condensed interim financial statements for the six-month period ended June 30, 2013 in relation to the application of IFRS 11 and the sale of part of the LNG assets and businesses (see Note 2 *"Basis of presentation"*).

INTERIM MANAGEMENT REPORT 2014

Repsol, S.A. and Investees comprising the Repsol Group

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

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1. MAIN EVENTS OF THE PERIOD

Net income in the first half of 2014 amounted to €1,327 million, 47% higher than the first half of 2013.

Gains on divestments in the period have had a significant impact on improved results, mainly due to the transfer of the holding in YPF S.A., after an agreement with the Government of Argentina for the expropriation of 51% of that company, as well as the completion of the sale of LNG and gas transportation assets. Regarding day-to-day business performance, the improved *Downstream* and *Gas Natural Fenosa* results have only partially offset the fall in *Upstream* results derived from the interruption of production in Libya and greater exploration costs. *(For further explanation on this period´s results, see "Results" in Note 4)*

In relation to the divestment in Argentina, it should be noted that in this period the controversy over the expropriation of 51% of YPF S.A. and YPF Gas S.A. was resolved through the signing of two agreements with the Argentinian authorities and YPF, respectively. Under the agreement signed with the Republic of Argentina, which was ratified by Repsol's General Meeting and approved fully and unconditionally by the Argentinian Parliament, Repsol was recognised a compensation of USD5,000 million for the expropriation of the shares in YPF S.A. and YPF Gas S.A. The payment of the compensation was made by the delivery to Repsol of Argentinian bonds, which the Group sold entirely for USD4,997 million. Additionally, the Group sold its stake in YPF S.A. that was not expropriated (12.38%), for the amount of USD1,316 million. Overall these operations have represented revenues for Repsol of USD6,313 million and total capital gain after tax of €300 million. *(For further information on the expropriation, see section 2.3.2 in Note 2)*

As part of the divestment targets for non-strategic assets established by Repsol's 2012-2016 Strategic Plan on 1 January 2014, the sale to Shell of part of the LNG assets and business, consisting of the stake in Repsol Comercializadora de Gas, S.A. was completed, whose main activity was the marketing, transportation and trading of LNG, for USD730 million, resulting in a post-tax gain of €329 million. Similarly, in March 2014 Repsol completed the sale to Enagás of a 10% stake in Transportadora de Gas del Perú, S.A. (TGP), for a price of USD219 million and generating a net capital gain of €57 million.

The income from the compensation for the expropriation of shares in YPF S.A. and YPF Gas S.A. in Argentina, the sale of the YPF S.A. shares not expropriated and the divestment of LNG assets have boosted the financial strength of the company, which has been acknowledged by the major international rating agencies with improvements in Repsol's credit rating. As at 30 June 2014, net debt stood at €2,392 million, which represents a decrease compared to the same period in 2013 of 55%. Furthermore, Repsol also has a high level of available resources that cover its short term gross debt by almost 3 times. *(For further information on the financial situation, see "Financial overview" in Note 4)*

In regard to the performance of our business areas, *Upstream* production during the first six months of 2014 stood at 340 kboe/d, 5.6% less than in 2013, fundamentally affected by the production disruption in Libya as a result of conflicts and security problems in that country. Volumes contributed by the strategic growth projects implemented in 2013 (Sapinhoá, in block BM-S-9 in Brazil, Phase II of Margarita-Huacaya in Bolivia, and Syskonsininskoye (SK) in Russia) are remarkable, meaning that in the first half of 2014 Brazil, Bolivia and Russia made a positive production yield of more than 18.7 Kboe/d. Development has also continued in other strategic projects, notably the start of the production in March of Kinteroni (Lot 57), in Peru. With the commissioning of Kinteroni, one of the five biggest discoveries of 2008, Repsol has begun production in seven of the ten key growth projects contemplated in the 2012-2016 Strategic Plan. In addition, the investment effort in exploration has been maintained, including the completion of 10 exploratory surveys in the six-month period and with 9 other exploratory surveys currently in progress. Emphasis should be placed on the Gabi-1 exploration survey in the Karabahsky-1 block in Russia as well as the positive outcome of the Qugruk 5 and 7 appraisal surveys in Alaska (North Slope) and the extension survey made at the TSP production well in Trinidad and Tobago. *(For further information on the Upstream division results and performance, see "Results" in Note 4 and 5.1)*

In *Downstream*, the results for the period improved by 29%, fundamentally stemming from the favourable progress of the marketing businesses, the chemical business driven by the measures of the Competitiveness Plan and the results from North American gas businesses, which continue to demonstrate the quality of the group's assets, particularly after the completion of the major refining projects at Cartagena and Bilbao, leading its European competitors in integrated Marketing and Refining margins. *(For further information on the Downstream division results and performance, see "Results" in Note 4 and 5.2)*

The contribution to the results of *Gas Natural Fenosa* was in line with the same period for the previous year, highlighting the gain obtained by the sale of its telecommunications business.

At the corporate level we note, on the one hand, the appointment of Josu Jon Imaz San Miguel as new Chief Executive Officer (CEO) to lead the Group towards new challenges and opportunities and, on the other hand, the resignation as a member of the Board of Directors of Pemex International España, S.A.U., after the sale of its stake in Repsol, S.A. *(For further information on Corporate Governance, see section 2.2)*

The Repsol Board of Directors agreed in May to the distribution of an extraordinary gross dividend of one euro (€1) per share, charged to the results of the current financial year, which was paid out on 6 June 2014 and resulted in a payment of €1,325 million. Additionally, in June and July, the company implemented a paid-up capital increase through which the program "*Repsol flexible dividend*" is being implemented, allowing shareholders to opt to receive their remuneration, whether wholly or partly, in newly issued shares or in cash. As a result, Repsol has become one of the leading Spanish companies for remuneration to its shareholders, at 1.485 €/share this semester.

During the first half of 2014 Repsol share prices appreciated by 5.13%, standing at €19.26/share on 30 June and representing a market capitalisation of €25,510 million. Discounting the effects on the price from the payment of the extraordinary dividend and the "*Repsol flexible dividend*" program, Repsol's shares behaved better than average during the period on the Spanish market and its European counterparts, leading the sector and the Ibex 35 in terms of shareholder remuneration. *(For further information on our shareholders remuneration and our share, see "Shareholder remuneration" in Note 4)*

Finally, Repsol has maintained its commitment to society and its employees, hiring 2,865 new employees over the six-month period (9% higher than the same period 2013) and investing more than €7 million in training. Additionally, 691 fewer tons of CO_2 equivalent were emitted in the atmosphere compared to the same period in 2013. *(See "Other ways of creating value" in the following section "Main figures and indicators of the period")*

MAIN FIGURES AND INDICATORS OF THE PERIOD

Results, financial overview and shareholder remuneration [1]	June 2014	June 2013
Results		
EBITDA	2,202	2,215
Adjusted Net Income	922	925
Net Income	1,327	901
Earnings per share (€/share)	0.98	0.68
ROACE (%) [2]	6.9	5.5
Financial overview		
Net financial debt [3]	2,392	5,358
EBITDA [4] / Net financial debt (x times)	1.8	0.9
Shareholder remuneration		
Total shareholder remuneration (€)	1.48	0.51

Main stock indicators	June 2014	June 2013
Share price at close of financial year (€)	19.26	16.21
Average share price (€)	18.79	16.81
Market capitalisation [1]	25,510	20,789

Our business performance [1]	June 2014	June 2013
Upstream		
Net liquids production (kbbl/d)	126	150
Net gas production (kboe/d)	214	210
Net hydrocarbon production (kboe/d)	340	360
Average crude oil realization price ($/bbl)	86.9	90.0
Average gas realization price ($/Thousand scf)	4.1	4.1
Adjusted Net Income	400	634
EBITDA	1,359	1,725
Operating investments	1,275	1,151
Downstream		
Refining capacity (kbbl/d)	998	998
Conversion index in Spain (%)	63	63
Refining margin indicator in Spain ($/Bbl)	3.5	3.2
Oil product sales (kt)	21,143	21,290
Petrochemical product sales (kt)	1,334	1,197
LPG sales (kt)	1,219	1,273
LNG sold in North America (TBtu)	149.6	86.2
Adjusted Net Income	452	350
EBITDA	948	635
Operating investments	283	226
Gas Natural Fenosa		
Adjusted Net Income	282	253

Other ways of creating value	June 2014	June 2013
People		
Managed Workforce [5]	24,796	24,543
Number of new hires in the year [6]	2,865	2,623
Safety and environmental management		
Overall Frequency Rate (IF) of accidents with sick leave [7]	0.7	0.48
Direct CO_2 emissions [8] (million t)	6.148	6.839

Macroeconomic environment	June 2014	June 2013
Brent ($/bbl)	108.9	107.5
WTI ($/bbl)	100.8	94.3
Henry Hub ($/Mbtu)	4.8	3.7
Algonquin ($/Mbtu)	12.3	8.2
Average exchange rate ($/€)	1.37	1.31

Note: Indicators have been calculated in accordance with the new reporting model; see section *4 Segment Reporting* of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.
[1] Where appropriate, figures shown in million euros.
[2] The ROACE for the first half of 2014 is an annualised indicator, and that corresponding to the 2013 financial year corresponds to the annual real data.
[3] Comparative figure 2013 corresponds to 31 December 2013.
[4] The EBITDA for the first half of 2014 is an annualised indicator obtained by a mere extrapolation of this period´s figures; that corresponding to the 2013 financial year corresponds to the annual real data.
[5] Does not include those employees with annual working hours equal to or less than 20% of the hours set in the collective bargaining agreement and employees of partially-owned companies in which Repsol does not have management control. The workforce figure also follows the Group's accounting consolidation criteria.
[6] % of number of permanent new hires in the year for the first semester 2014 and 2013 amounts 33% and 25%, respectively.
[7] Overall frequency rate with sick leave: number of accidents leading to days lost or deaths recorded over the year, for every million hours worked.
[8] Includes direct emissions of CO_2 from the most relevant business units and countries in which the Group operates, accounting for 98% of the Company's direct Greenhouse Gas (GHG) emissions inventory.

2. OUR COMPANY

2.1) BUSINESS MODEL

Repsol Group´s activities are divided into three business areas:

- *Upstream*, relating to the exploration and production of hydrocarbons.

- *Downstream*, which is responsible for (i) refining and commercialization of oil products, petrochemicals products and liquefied petroleum gas, (ii) commercialization, transportation and regasification of natural gas and liquefied natural gas (LNG) and (iii) renewable energy power projects; and

- *Gas Natural Fenosa*, corresponding to Repsol's stake in the Gas Natural Fenosa group, which mainly engages in natural gas marketing and the generation, distribution, and marketing of electricity.

2.2) CORPORATE GOVERNANCE

On 30 April 2014, the Board of Directors of Repsol, at the proposal of its Chairman, and with a favourable report issued by the Nominations and Remuneration Committee, approved a significant remodelling of the structure of the senior management team, in particular the appointment of Josu Jon Imaz San Miguel as Chief Executive Officer (CEO), who previously held the position of General Director of Industry and Trading.

The new organisation of the Repsol group has strengthened the management of all businesses and corporate areas, meaning that, following the compensation agreement reached with the Republic of Argentina, it has the best organisation to generate new growth opportunities -both organic and inorganic- in accordance with its principles of profitability, responsibility, sustainability and future.

On the same date, the Board accepted the resignation of Independent Board Member Paulina Beato Blanco, leaving a vacant position filled by the new Chief Executive Officer, who was also appointed member of the Delegate Commission.

On 4 June 2014, following the announcement by PEMEX of the sale of the majority of its share in Repsol, Pemex Internacional España, S.A.U. submitted its resignation as a member of the Board of Directors of Repsol, S.A. and of the Committees on which it sat (Delegate Committee and Strategy, Investment and Corporate Social Responsibility Committee).

2.3) RISK MANAGEMENT

2.3.1 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.

The risks faced by the Group in the second half of 2014 are the same as those detailed in the management report accompanying the financial statements for 2013. This information should therefore be read in conjunction with the description of the risk factors included in the Consolidated Management Report 2013, as well as with Note 19 "*Financial risk and capital management*" of the Consolidated Financial Statements for the said year.

Below are shown, in summary form, the existing risks at 31 December 2013 that remain valid as risks for the second semester of 2014.

STRATEGIC AND OPERATIONAL RISKS

Uncertainty in the current economic context

Despite the substantial decrease of the risks resulting from the 2009 financial crisis, global economic recovery continues to be too weak to significantly reduce levels of leverage in many sectors of advanced economies, and increasingly so in emerging economies. This, together, with historically low interest rates during the past five years, which could have led to some agents assuming excessive risk, is a significant additional source of risk, due to the vulnerability to future interest rate rises.

In the Eurozone, interior market fragmentation could keep unemployment at excessive levels in some countries, driving up deflationary pressures, which would have a negative impact on the economic and monetary union as a whole.

Furthermore, persistent pressure on the sustainability of government finances in advanced economies has led to pronounced 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 condition, businesses, or results from Repsol operations.

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

World oil prices have experienced significant changes over the last ten years, in addition to being subject to international supply and demand fluctuations, over which Repsol has no control.

International product prices are influenced by the price of oil and the demand for said products. Also, international prices of crude oil and products affect the refining margin. International oil prices and demand for crude oil may fluctuate significantly during economic cycles as well.

Reductions in oil prices negatively affect Repsol's profitability, the value of its assets and its plans for capital investment. Likewise, any significant drop in capital investment could have an adverse effect on Repsol's ability to replace its crude oil reserves.

Regulatory and tax framework of Repsol's operations

The oil industry is subject to extensive regulation and intervention by governments in matters such as the award of exploration and production permits, the imposition of specific drilling and exploration obligations, restrictions on production, price controls, divestments of assets, foreign currency controls, and the nationalisation, expropriation or cancellation of contractual rights.

Likewise, oil refining and petrochemical activities, in general, are subject to extensive government regulation and intervention in matters such as safety and environmental controls.

Finally, the energy sector, and particularly the oil industry, is subject to a singular fiscal framework. In *Upstream* activities it is common to see specific taxes on profit and production, and with respect to *Downstream* activities, the existence of taxes on product consumption is also common.

Repsol is subject to extensive environmental and safety legislations and risks

Repsol is subject to extensive environmental and safety regulations in all the countries in which it operates. These regulations govern, among various matters, those concerning the Group's environmental operations concerning their producers, 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 constraints 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 costs.

Operating risks related to exploration and exploitation of hydrocarbons 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, many of which are beyond Repsol´s control. These activities are exposed to production, equipment and transportation risks, mistakes or inefficiencies in operations management and purchasing processes, natural hazards and other uncertainties relating to the physical characteristics of oil and gas fields. Moreover, any mean of transport of hydrocarbons implies inherent risks: during road, rail, maritime or pipe transportation, hydrocarbons or other hazardous substances may be spilled.

Moreover, Repsol depends on replacing depleted oil and gas reserves with new proven reserves profitably, in a way that enables subsequent production to be economically viable.

Location of reserves

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

Oil and gas reserves estimation

In the estimation of proven oil and gas reserves, Repsol relies on the guidelines and the conceptual framework of the Securities and Exchange Commission’s (SEC) definition of proven reserves and on the criteria established by the Petroleum Reserves Management System of the Society of Petroleum Engineers (PRMS-SPE). In the estimation of non-proven oil and gas reserves, Repsol relies on the criteria and the guidelines established by the PRMS-SPE.

The accuracy of these estimates depends on a number of different factors, assumptions and variables, some of which are beyond Repsol’s control. As a result, measures of reserves are not precise and are subject to revision.

Projects and operations carried out through joint ventures and partnerships

Many of the Repsol Group’s projects and operations are conducted through joint ventures and partnerships. If Repsol does not act as the operator on those projects or operations, its ability to control and influence the performance and management of the operations and to identify and manage risk is limited. Additionally, there is a possibility that if any of Repsol’s partners or members of a joint venture or associated company fails to comply with their financial obligations or incur any other breach, that could affect the viability of the whole project.

Repsol may engage in acquisitions, investments and disposals as part of its strategy

As part of Repsol's strategy, the company may engage in acquisitions, investments and disposals of interests. There can be no assurance that Repsol will identify suitable acquisition opportunities, obtain the financing necessary to complete and support such acquisitions or investments, acquire businesses on satisfactory terms, or that any acquired business will prove to be profitable.

Any failure to successfully integrate such acquisitions could have a material adverse effect upon the business, results of operations or financial conditions of Repsol. Any disposal of interest may also adversely affect Repsol's financial condition, if such disposal results in a loss to Repsol.

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

Repsol holds insurance coverage against certain risks inherent in the oil and gas industry, in line with industry practice. Insurance coverage is subject to deductibles and limits that in certain cases may be materially exceeded by the liabilities and/or losses incurred. In addition, Repsol's insurance policies contain exclusions that could leave the Group with limited coverage in certain circumstances. Furthermore, 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 materialise in the future. If Repsol were to experience an incident against which it is not insured, or the costs of which materially exceed its coverage, it could have an adverse effect on its business, financial position and results of operations.

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 the Group operates, and such prices may be lower than prevailing prices in other regions of the world.

In addition, the Group 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 liberalised markets. Furthermore, gas availability could be subject to the risk of counterparties breaching their contractual obligations, thus necessitating to search for other sources of natural gas, potentially at higher prices than those envisaged under the breached contracts.

The Group has long term contracts in place for the sale of gas to clients which, in the event of there being insufficient reserves in countries envisaged under them, Repsol would not be able to meet its contractual obligations, some of which may lead to sanctions being imposed.

Cyclical nature of the petrochemical activity

The petrochemicals industry is subject to wide fluctuations in supply and demand, reflecting the cyclical nature of the petrochemicals market on a regional and global scale.

Repsol Group's strategy requires efficiency and innovation in a highly competitive market

The oil, gas and petrochemical industry operates in the context of a highly competitive energy sector. This competition influences the conditions for accessing markets or following new business leads, the costs of licenses and the pricing and marketing of products.

The implementation of the Group's strategy requires a significant ability to anticipate and adapt to the market and continuous investment in technological advances and innovation.

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 in the ordinary course of business. In addition, Repsol could become involved in other possible future lawsuits over which Repsol is unable to predict the scope, subject-matter or outcome. Any current or future dispute inevitably involves a high degree of uncertainty, and therefore any outcome could affect the business, results or financial position of the Repsol Group.

Misconduct or violations of applicable legislation by our employees can damage the reputation of the Repsol Group

The existence of management misconduct or breach of applicable legislation, when occurring, could cause harm to the Company's reputation, in addition to incurring sanctions and legal liability.

Information technology and its reliability and robustness are key factors in maintaining our operations

The reliability and security of Repsol Group's information technology systems are critical to maintaining the availability of its business processes and the confidentiality and integrity of the data belonging to the Company and third parties. Given that cyber-attacks are constantly evolving, the Repsol Group cannot guarantee that it will not suffer material losses in the future caused by such attacks.

FINANCIAL RISKS

Repsol has in place a structure and systems that enable it to identify, measure and control the financial risks to which the Group is exposed. The main financial risks are described below:

Liquidity risk

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

Credit risk

Credit risk is the risk of a third party failing to carry out its contractual obligations, resulting in a cost or loss to the Group.

The exposure of the Group to credit risk is mainly attributable, among others, to commercial debts from trading transactions, which are measured and controlled in relation to the customer or individual third parties. Additionally, the Group is also exposed to counterparty risk derived from non-commercial contractual transactions that may lead to defaults. In these cases, the Group analyses the solvency of counterparties with which the Group has or may have non-commercial contractual transactions.

Market risk

Exchange rate fluctuation risk: Repsol is exposed to fluctuations in currency exchange rates since revenues and cash flows generated by oil, natural gas and refined product sales are generally denominated in U.S. dollars or are otherwise affected by dollar exchange rates. Operating income is also exposed to fluctuations in currency exchange rates in countries where Repsol conducts its activities. Repsol is also exposed to exchange risk in relation to the value of its assets and financial investments.

Commodity price risk: as a consequence of performing operations and trading activities, the earnings of the Repsol Group are exposed to volatility in the price of oil, natural gas, and related derivative products.

Interest rate risk: the market value of the Group's net financing and net interest expenses could be affected as a consequence of interest rate fluctuations.

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

2.3.2 EXPROPRIATION OF REPSOL GROUP SHARES IN YPF S.A. AND REPSOL YPF GAS S.A.

During the first half of 2014, with the monetisation of sovereign bonds delivered by the Republic of Argentina to Repsol in payment of compensation recognised by the Agreement for the Amicable Settlement and Compromise of Expropriation – *Convenio de Solución Amigable y Avenimiento de Expropiación* –, signed by and between the Republic of Argentina on the one side, and Repsol, S.A., Repsol Capital, S.L. and Repsol Butano, S.A. on the other, one of the main risks to which the Group was exposed, as a result of the dispute arising from the expropriation of 51% of capital of YPF S.A. and YPF Gas S.A., has drawn to a close. Under the terms of the Agreement, the Republic of Argentina recognized an irrevocable debt to Repsol of USD5,000 million as compensation for the expropriation of these shares.

In payment of the compensation, the Republic of Argentina delivered to Repsol, a portfolio of sovereign bonds for a total par value of USD5,317 million. These bonds have subsequently been sold, in several transactions, in their entirety to J.P. Morgan Securities, for a total amount of USD4,997 million, thus extinguishing the full debt recognised by the Republic of Argentina.

Additionally in the sale of the sovereign bonds, the Group has sold a 12.38% stake in the non-expropriated share it holds in YPF S.A., mostly to foreign institutional investors, for the sum of USD1,316 million, thus leaving the Group's interest in YPF S.A. at 30 June 2014 below 0.001%.

These transactions as a whole have provided USD6,313 million of income for the Group.

For more information regarding the expropriation, the signature of the agreements with the Republic of Argentina and YPF S.A., accounting effects and the contingencies associated with the expropriation process, see Note 3.b "*Assets and liabilities related to the expropriation of the Repsol Group Shares in YPF S.A. and YPF Gas S.A. – Argentina Agreement*" and Note 9 "*Contingencies and guarantees*" of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.

3. MACROECONOMIC ENVIRONMENT

Recent economic developments

A particularly harsh winter caused the US economy to contract in the first quarter of the year. This, together with the modest evolution of emerging economies, drove downside risk beyond forecasts for 2014 (3.6% year on year) and the upside risk owing to base effect for 2015 (3.9% year on year). In any event, the global economy should see a quickened growth pace as the year goes on, particularly in advanced economies.

Currently, global economic growth is increasingly sustained on real activity and less on unconventional monetary policies which produced extraordinary liquidity.

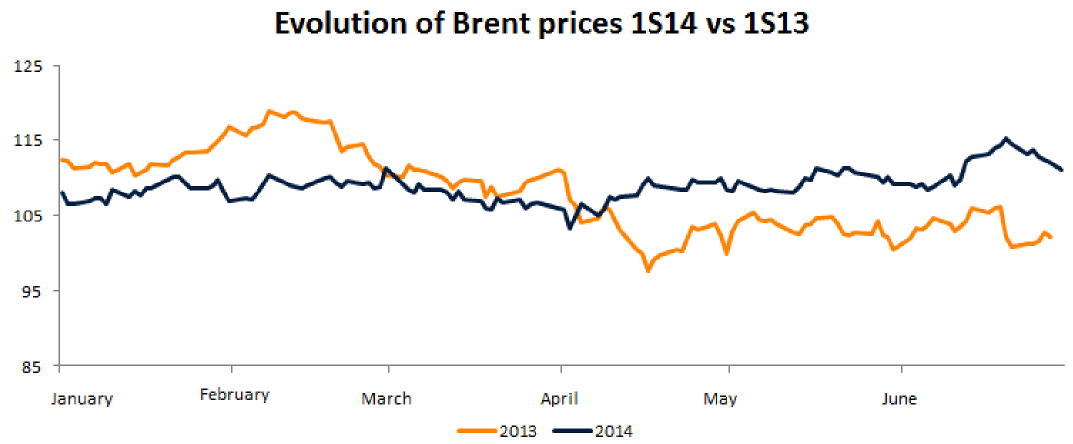
In any case, the different stances of leading central banks in applying their monetary policies must be taken into account. While the Bank of England and US Federal Reserve are abandoning unconventional stimuli, such as quantitative easing, the Bank of Japan and the European Central Bank (ECB) are adopting new measures of this kind.

Although economic recovery continues, less than forecasted growth in the first half of the year indicates that growth for the year will be somewhat lower than initially estimated. A particularly harsh winter in the US has caused real GDP in the first quarter to shrink 2.9% (quarter on quarter annualised). The Euro zone grew 0.2% quarter on quarter in the same period, with Germany and Spain recording positive advances but France and Italy, two bigger economies, recording more disappointing growth. The ECB once again lowered interest rates and released more liquidity into the European banking system in an attempt to stimulate lending, end banking fragmentation of the Euro zone and combat the risk of excessively low inflation.

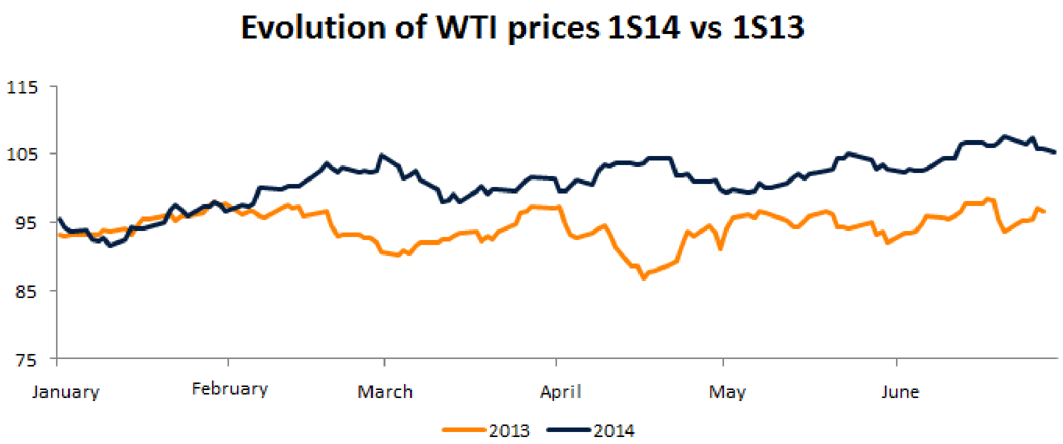
Emerging economies have weathered quite well the financial turbulence from the past year caused by the FED's withdrawal of monetary stimuli. In 2014 China may see year on year growth of 7.5% year on year, Brazil 1.8% and emerging countries as a whole recording between 4.8% and 5% year on year. Financial conditions in the first half of the year improved noticeably thanks to the return of international investors to emerging countries in search of better profitability.

Recent developments in the Energy sector

During recent months the oil market has seen geopolitical and fundamental strengths, contributing to relative stability of the price of Brent, keeping barrel prices between 105 and 110 dollars per barrel. Geopolitical conflict in Ukraine and improved outlook of demand in emerging countries have put pressure on upward prices, while increased supply in both OPEC and non-OPEC countries have put pressure on downward prices. More recently, crude prices have reached their annual maximum due to the threat of civil war in Iraq, a key country in current and future supply of crude oil.



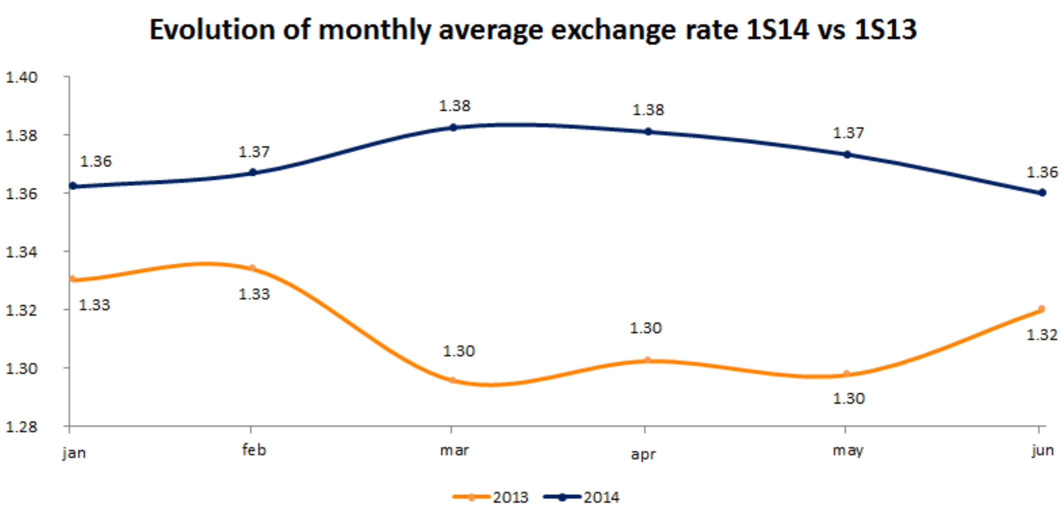
The US crude benchmark grade West Texas Intermediate (WTI) has shown an upward trend in response to ongoing crude evacuation from Cushing, Oklahoma to the Gulf of Mexico, easing the bottleneck affecting the region for the past three years and narrowing the differential with respect to the European marker.



In turn, in the natural gas market, the drop in average prices in Europe and Asia is explained by the relaxing of fundaments in the supply and demand dynamic, which has had more impact than the evolution of crude prices, especially in Europe. In this region, an excessive supply has ocurred due to persistently low demand. The crisis between Russia and Ukraine beginning in March, after winter had already passed, did not lead to any interference with gas supplies. In Asia, no significant restrictions on supply occurred, whilst demand was somewhat weakened despite the incorporation of Singapore and Malaysia as LNG importers in 2013.

Evolution of exchange rate

Despite the risks arising from the 2009 financial crisis lessening considerably, in the absence of inflationary pressures, interest rates are expected to remain relatively low at global level during the coming years. In the first half of the year, lessened financial risk in Europe attracted Euro zone capital and caused the Euro to appreciate against the US Dollar. However, given that the Euro zone has experienced some delay in economic recovery, it can be expected that the ECB will keep interest rates lower and for a longer time than in the US.



4. RESULTS, FINANCIAL OVERVIEW AND OUR SHAREHOLDER REMUNERATION[1]

RESULTS

Group adjusted net income in the first half of 2014 and 2013 are as follows:

€ Millions	**2014**	**2013**	**Variation**
Upstream	400	634	-37%
Downstream	452	350	29%
Gas Natural Fenosa	282	253	11%
Corporate and adjustments	(212)	(312)	32%
Adjusted Net Income	**922**	**925**	**0%**
Inventory effect	(54)	(153)	65%
Non-recurring income	191	(87)	-
Income from discontinued operations	268	216	24%
Net income	**1,327**	**901**	**47%**

NOTE: For further information on the performance of Reporting segments, see Note 4 "*Segment Reporting*" of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.

In macroeconomic terms, the main factors influencing the results´ evolution for the first half of 2014 have been the depreciation of the Dollar against the Euro with respect to the same period in 2013, low interest rates and slow global economic recovery.

Adjusted Net Income[2] for the first half of 2014 was €922 million, in line with the same period in 2013.

Upstream adjusted net income in the first half of 2014 was €400 million compared to €634 million for the same period of 2013. The drop in production in Libya due to security problems and in Trinidad and Tobago due to drilling and maintenance activities in the Savonette field have been partially offset by the commissioning of Kinteroni in Peru, the connecting of new wells in Sapinhoá (Brazil) and the starting of production of Phase II of Margarita, Bolivia, and SK in Russia, in October and February 2013, respectively. Additionally, results have been negatively affected by greater exploration costs, due to

[1] Unless expressly stated otherwise, all information given herein has been prepared in accordance with the Group's new reporting model described in Note 4 "*Segment Reporting*" of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.
APPENDICES I and II hereto include reconciliation between the adjusted magnitudes and those corresponding to IFRS-EU financial information.

[2] The Group has decided to disclose the "Adjusted Net Income" as a measure of the result of each business segment, that being the recurring net operating profit of continuing operations at current cost of supply (CCS) after tax, which includes, in proportion to the Group's respective ownership interest, the figures corresponding to its joint ventures or other companies managed as such.
As a result, the Adjusted Net Income is prepared by using the inventory measurement method of current cost of supply (CCS), widely used in the industry, which differs from that accepted under prevailing European accounting standards (MIFO). This methodology facilitates users of financial information comparisons with other companies in the sector. Under CCS methodology, the purchase price of volumes of inventories sold during the period is based on the current prices of purchases during the period. The inventory effect is the difference between the net income using CCS and the net income using MIFO, and is presented net of the tax and excluding non-controlling interests.
Also, the Adjusted Net Result excludes non-recurring income, which are those originated from events or transactions falling outside the Group's ordinary or usual activities are exceptional in nature or arise from isolated events.
On the other hand, Gas Natural Fenosa's performance is assessed on the basis of its net income contribution and the cash flow obtained through the dividends received. Accordingly, the net income of this segment is presented as the company's net income in accordance with the equity method; the other metrics presented only include the cash flows generated by the Repsol Group as a shareholder of Gas Natural SDG, S.A.
APPENDIX I in this document discloses the reconciliation of adjusted results with IFRS-EU results.

greater amortisation of surveys, by greater amortisation from the beginning of production in new projects and by the USD/€ exchange rate effect.

Downstream adjusted net income for the first half of 2014 was €452 million, a 29% increase on the same period of 2013. This rise is principally due to (i) improved results in the petrochemical business, where efficiency and competitive measures have improved margins and sales with respect to the first half of 2013, (ii) improvement in marketing business results, due to better margins recorded in Spanish service stations, and (iii) improvement in the *Gas&Power* business results, mainly because of the increase in benchmark prices caused by low winter temperatures in the North-East of North America, to a higher volume of natural gas commercialised in North America and due to lowered regasification costs and amortisations following the provisions recorded in Canadian assets at 31 December 2013. Moreover, weakened refining margin indicators in Europe have been detrimental to refining results in Spain, which have been partially offset by improvements in Peru. Finally, the results of the LPG activity in Spain have been affected by the implementation of new bottled LPG regulations, but we should stress the positive impact of the sentences recognising Repsol's right to compensation for losses resulting from the application of the price formula corresponding to the second to fourth quarters 2011 and first quarter 2012.

With respect to *Gas Natural Fenosa*, net income for the first half of 2014 was €282 million, compared to €253 million for the same period last year. Lower results in the Spain electricity business, affected by the regulation passed in June of last year, and of the Latin American business, due to depreciation of the dollar and local currencies, have been offset by improved gas wholesale results. Moreover, income from the sale of the telecommunications business should be remarked.

In *Corporation and adjustments* in the first half of 2014, a net loss was recorded of €212 million, an improvement of 32% on the €312 million loss of the same period in 2013. This variation is mainly due to improved results concerning the CO_2 rights trading, and the positive development of the financial result due to the reduced average cost of borrowing and positive effect of the dollar against the euro, partially offset by the effect of the early cancellation of the bonds issued in 2013 by Repsol, S.A.

Net income for the first half of 2014 was €1,327 million, compared to €901 million the previous year, a 47% increase on the same period of 2013.

Net income (€1,327 million) is obtained increasing the adjusted net income (€922 million) by the following items:

- Inventory effect: the effect on results of crude and product valuation using MIFO rather than CCS criteria amounted -€54 million after taxes.
- Non-recurring income: €191 million after taxes that relate mainly to (i) the capital gains from the sale of the shares in YPF S.A. not expropriated (€287 million), (ii) the gain from the sale of the holding in Transportadora de Gas del Perú, S.A. (€57 million), (iii) the cancellation of the LNG transport agreement with Naturgas (€48 million), and (iv) the provision recorded in the North America *Upstream* assets (€142 million) as a result of the new development plan placed for the non-conventional assets at the Mississippian Lime (Mid-Continent) field (see section g "*Impairment of assets*" in Note 3 of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014).
- Results from discontinued operations: €268 million after taxes, which principally included the positive effect of the sale of the share in Repsol Comercializadora de Gas, S.A (€329 million).

Main financial performance indicators for the first half of 2014 and 2013 are as follows:

PERFORMANCE INDICATORS	**06/30/2014**	**06/30/2013**
Return on average capital employed (ROACE) (1)(2) (%)	6.9	5.5
Earnings per Share (€/share) (1)	0.98	0.68

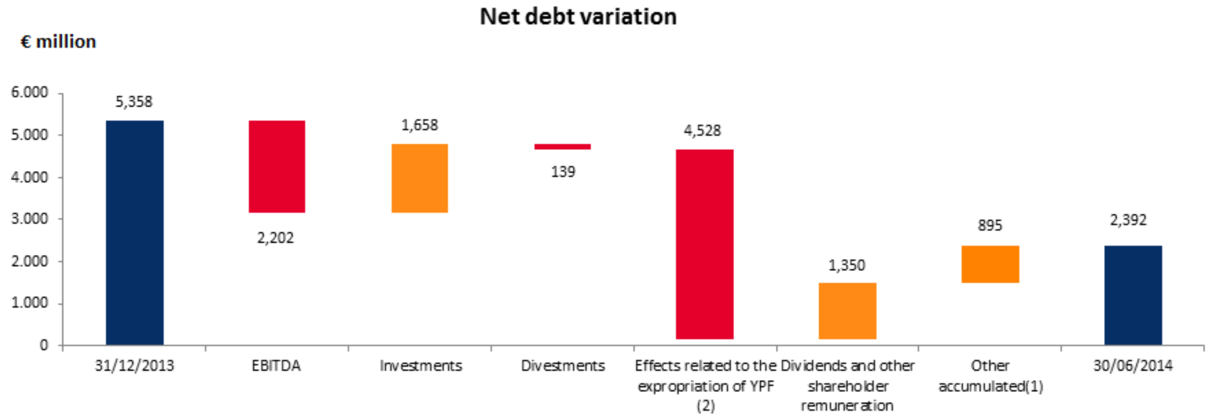
(1) The magnitudes and financial ratios for 30 June 2013 have been reformulated for comparative purposes with respect to the information published in the Interim management report 2013.
(2) ROACE: (net recurring operating income + recurring results of investments) / (average capital employed for the period of continuing operations). The ROACE for the first half of 2014 is an annualised indicator and corresponds to its annual real figure for 2013.

FINANCIAL OVERVIEW

During the first half of 2014, Repsol's financial foundation has improved considerably, thus resulting in an upgrade of its credit rating by leading international ratings agencies.

Indebtedness

Consolidated Group adjusted net financial debt at 30 June 2014 amounts to €2,392 million, against €5,358 million at 31 December 2013, equating to a drop of €2,966 million. The evolution of adjusted net financial debt in the first half of 2014 is described below:



(1) "Others" mainly includes income tax payments, net interest and changes in working capital.
(2) Mainly includes the sale of the Argentinian bonds received as compensation for the expropriation of YPF and Sale of non-expropriated shares in YPF S.A. (see section *2.3.2 Expropriation of Repsol Group shares in YPF S.A. and YPF Gas S.A.* in this document).

Sale of the Argentinian sovereign bonds in payment of compensation for the expropriation of YPF and the sale of non-expropriated YPF shares have provided joint income of €4,592 million. In addition, the sale of interests in Repsol Comercializadora de Gas, S.A. and in TGP has generated income of €513 million and €109 million, respectively.

Main financing operations, maturities and cancellations of gross debt

During the first half of 2014, the Group has issued European commercial papers (ECP) for a par amount of €592 million, USD342 million and £5 million, amounting to a total counter value of €847 million.

In March, a bond issued by Repsol International Finance B.V. dated 27 March 2009 matured, for the sum of €1,000 million. This bond, with a coupon of 6.5%, has meant a reduction in current financial liabilities for the period, and cash outflow for the same amount.

On 17 June 2014, Repsol S.A. announced the early cancellation of all Simple Bonds Series I/2013. The cancellation of this liability resulted in the recognition of a €71 million pre-tax loss in the first half of 2014. In conjunction with payment of the cash due to the holders of the Series I/2013 Simple Bonds, these bonds were derecognized on 1 July 2014, as described in section b) *"Financial liabilities"* of Note 5 and Note 12 *"Subsequent events"* of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.

Financial prudence

Repsol holds available cash resources and other liquid financial instruments and unused credit lines that enable the Group to cover the gross debt maturities including preference shares.

Net debt and net debt to capital employed ratio, in which capital employed refers to net debt plus total 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.

INDICATORS OF FINANCIAL POSITION	**Consolidated Group**	
Amounts in millions of euros, except ratios in %	**06/30/2014**	**12/31/2013**
Net financial debt	2,392	5,358
Net financial debt / total capital employed (1)	8.2%	16.3%
EBITDA(2)/ Net financial debt (x times)	1.8	0.9

(1) In 2013 included capital employed corresponding to discontinued operations that was written-off as of 30 June 2014 owing to the monetization of the compensation received for the expropriation of 51% of YPF (see Note 2.3.2).
(2) The EBITDA for the first half of 2014 is an annualised indicator obtained by a mere extrapolation of this period´s figures; that corresponding to the 2013 financial year corresponds to the annual real data.

Credit rating

Currently, following announcements by Fitch and Moody's of an upgrading, Repsol S.A.'s current credit rating is as follows:

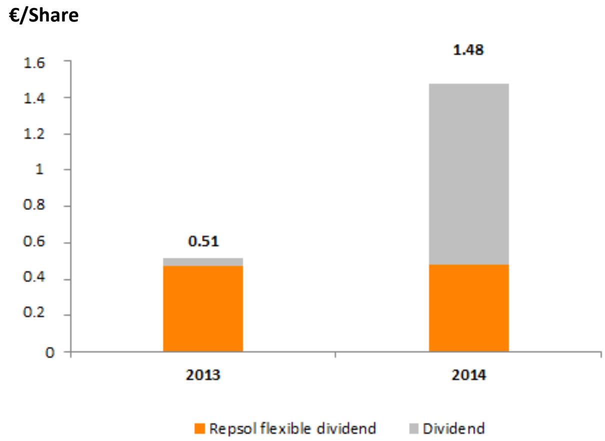
TERM	**STANDARD & POOR'S**	**MOODY'S**	**FITCH RATINGS**
Long-term	BBB-	Baa2	BBB
Short-term	A-3	P-2	F-3
Outlook	Positive	Stable	Positive
Latest data review	05/15/2014	05/20/2014	05/15/2014

Treasury shares and own equity investments

No significant transactions have occurred with treasury shares and equity instruments. For further information on treasury shares and equity instruments, please see Note 3.f).2 of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.

SHAREHOLDER REMUNERATION

Shareholder remuneration in the first half of 2014 and 2013, including cash dividend and script dividend under the *"Repsol flexible dividend"* program, was as follows:



Remuneration indicated in the above table for the first half of 2014 includes the sum of the irrevocable purchase commitment of free of charge allocation rights assumed by Repsol in its paid-up capital increase executed in January 2014 (0.477 euros per right), under the remuneration scheme called *"Repsol flexible dividend"*, and an extraordinary interim dividend from results for the ongoing financial year of 1 euro per share. Consequently, Repsol has paid a total gross amount of €1,557 million to its shareholders in the first half of 2014, and has delivered 22,044,113 new shares for an equivalent amount of €389 million, to those who opted to receive new-issue company shares.

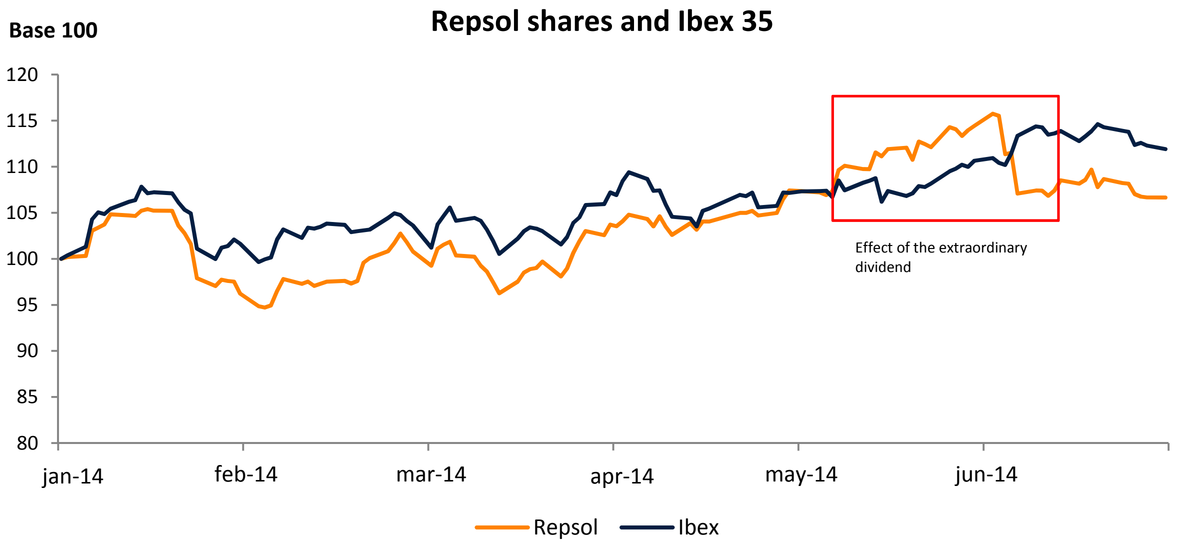
Likewise, in July 2014 under the remuneration scheme *"Repsol flexible dividend"*, and in substitution of the final dividend for 2013, Repsol made a cash disbursement of €155 million (0.485 euros gross per right) to those shareholders who chose to sell the free of charge allocation rights to the Company, and has remunerated those who chose to receive new-issue company shares with 25,756,369 shares, of an equivalent value of €487 million.

For additional information on the total remuneration received by shareholders, the aforementioned paid-up capital increases issued under the *"Repsol flexible dividend"* scheme, see section 3.f) *"Net Equity"* of Note 3 and Note 6 *"Shareholder remuneration"* of the interim condensed consolidated financial statements for the six-month period ended 30 June 2014.

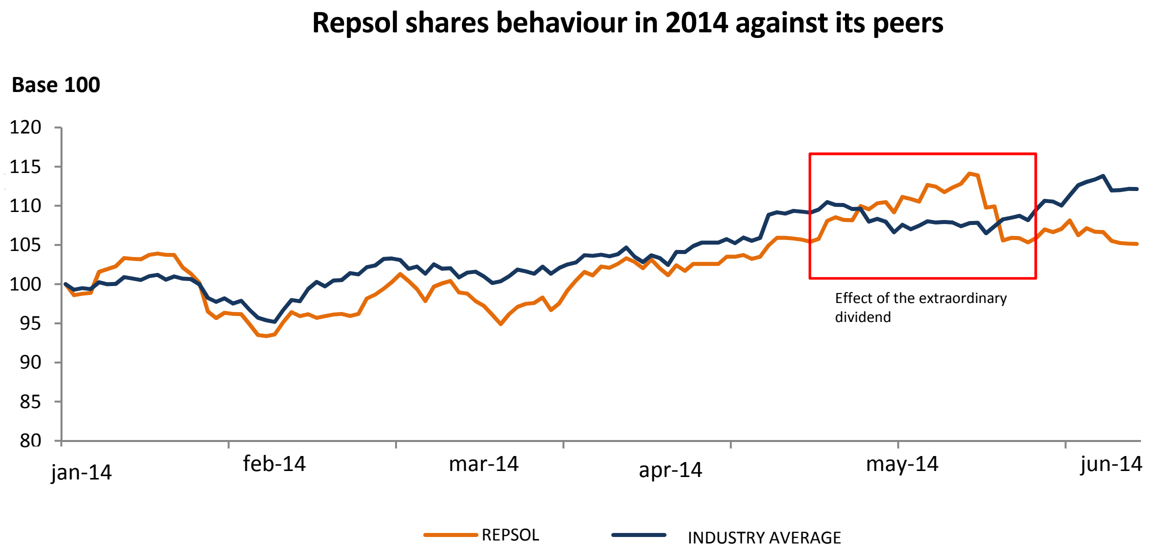
Our shares

Overall, first half of 2014 has been positive for the Spanish stock markets, closing the year with revaluation of the Ibex 35 index of 10.15%. This increase is mainly due to a change in the perception of the Spanish economy by investors. The risk premium fell 62.2 points during the first six months of the year, and the interest on Spanish debt fell from 4% to 2.66%, showing that the market considers the political reforms and stability as positive signals for investing in Spanish companies.

Repsol shares, driven in part by the announcement of the extraordinary interim gross dividend of one euro per share and the successful monetization of the Argentinian sovereign bonds, outperformed the Ibex 35 index for most of the period. Repsol closed the half-year with a gain of 5.13% once the share prices discounted the payment of the extraordinary interim dividend and the price of free of charge allocation rights under the "*Repsol flexible dividend*" scheme. However, in terms of total return, Repsol was above the Ibex average, becoming the leading Spanish company in shareholder remuneration.



In relation to the industry, Repsol shares have performed better than the average of its European peers, until the payment of the extraordinary interim dividend. European companies in the industry have revaluated on an average of 10.03% and, akin to the comparison with Ibex 35, the performance of Repsol securities against the sector at the end of the semester has been influenced by the effects of the discount in share prices of the extraordinary interim dividend and the *"Repsol flexible dividend"* scheme.



Note: sector average includes BP, ENI, Total, RDS (B), OMV, Galp and Statoil.

The main stock-exchange indicators of the Group during the first half of 2014 and 2013 are detailed bellow:

MAIN STOCK EXCHANGE INDICATORS	06/30/2014	06/30/2013
Share price at close of financial year[(1)] (euros)	19.26	16.21
Average share price (euros)	18.79	16.81
Maximum price for the period (euros)	20.90	18.49
Minimum price for the period (euros)	17.10	15.14
Market capitalisation at closing (million euros) [(2)]	25,510	20,789
Book value per share [(3)] [(4)]	20.16	20.89

(1) This item represents the quoted year-end price per share in the Continuous Market of the Spanish Stock Exchanges.
(2) Corresponds to the trading price per share at closing multiplied by the number of outstanding shares.
(3) Corresponds to the Net Equity attributable to the parent / number of shares outstanding at closing.
(4) Comparative figure or indicator corresponding to 31 December 2013.

5. PERFORMANCE OF OUR BUSINESS AREAS

5.1) UPSTREAM

Main figures and indicators

UPSTREAM:	June 2014	June 2013
Net production of liquids (kbbl/d)	126	150
Net production of gas (kboe/d)	214	210
Net production of hydrocarbons (kboe/d)	340	360
Average crude realisation price ($/bbl)	86.9	90.0
Average gas realisation price ($/Thousand Scf)	4.1	4.1
Extraction cost [(1)] ($/boe)	5.14	4.31
Finding cost (three-year average) ($/boe)[(2)]	6.21	9.45

(1) Net Lifting Cost: Lifting Costs / Net Production
(2) Finding cost: (Investments Acreage Acquisition+Exploration)/Discoveries and Extensions

Results and investments

Millions of euros	June 2014	June 2013	Variation
North America and Brazil	154	94	64%
North Africa	-23	157	-115%
Rest of the world	269	383	-30%
Adjusted Net Income	**400**	**634**	**-37%**
EBITDA	**1,359**	**1,725**	**-21%**
Operating investments[(1)]	**1,275**	**1,151**	**11%**
Exploration Costs	**379**	**196**	**93%**
Effective Tax Rate	**40%**	**48%**	**-8%**

[(1)] Development investments represented 59% of the total, and they have mainly been made in U.S.A. (31%), Venezuela (21%), Trinidad and Tobago (16%), Brazil (15%) and Bolivia (9%).Exploration investments represented a 34% of the total investments, with U.S.A. (42%), Brazil (10%), Angola (9%), Russia (8%), Namibia (8%), Iraq (7%) and Mauritania (5%).

Main events of the first semester 2014

- At the end of January 2014 **a sale agreement was signed for Repsol's 10% share in the "Transportadora de Gas del Perú" (TGP) gas pipeline**. TGP is the company responsible for the transport of natural gas and liquids from the Camisea production field to the Peru LNG liquefaction plant located in Pampa Melchorita and on to the city of Lima.
- On 8 January 2014, the service agreement in the **Reynosa-Monterrey block in Mexico came to an end as planned,** and the facilities were returned to the state-owned company with all commitments fulfilled.
- Under the framework of the Development Plan of the **Sapinhoá field**, another of the company's strategic projects, located in the BM-S-9 block in the offshore Santos basin, Brazil, **the production of a second well began in mid-February**. In April **a third well came on line, and a fourth in July**. Repsol Sinopec Brazil holds a 25% stake in this important Brazilian pre-salt project, in association with Petrobras (45% and operator) and BG (30%).
- At the end of March, **gas production in the Kinteroni field** (Block 57) in Peru, one of the ten key projects of the company's Strategic Plan for 2012-2016, **started**. Repsol is the project's operator and holds a 53.84% stake with Brazilian company Petrobras (46.16%). Block 57 is located to the east of the Andes, one of the most prolific exploratory gas areas in Peru.
- Also in March 2014, **the Gabi-1 survey in the Karabashsky 1 block, Russia, concluded with a positive outcome**, which Repsol operates and owns fully. This important discovery **is in addition to the Gabi-2 survey in the Karabashsky block 2**, also fully owned and operated by Repsol. The blocks are located in Western Siberia, and show their great potential for hydrocarbons.
- The "*Rowan Renaissance*" rig, a cutting edge drilling vessel for ultra-deep water, and contracted for construction in 2012, **began drilling operations in April**.
- In Algiers on 15 May, Groupement Reggane, a consortium formed by Sonatrach, Repsol, RWE Dea and Edison International, operator of the Reggane Nord project in Algeria, which includes the Reggane, Kahlouche, Kahlouche Sur, Azrafil Sureste, Sali and Tiouliline fields, **signed an Engineering, Procurement, Construction and Commissioning contact for the Project's Surface Facilities (EPCCS),** located in the Algerian south-western Saharan region. This is an important milestone in the development work of what is a strategic project for the company, which foreseeably will begin gas production in the first half of 2017.

- Exploratory campaign: **10 exploratory surveys** have been completed: one with a positive outcome, seven negative and two undergoing evaluation. Nine exploratory surveys are ongoing at the end of the six month period. Additionally, 22 new exploration blocks have been added to the **acreage**, entailing a total new gross exploratory surface area of 13,838 km^2.
- In the second quarter of the year, an agreement was reached for the **entrance of Total** (35%) and **BG** (30%) in the **exploratory block in Aruba waters**. Repsol remains the operator of the block with a 35% stake.
- In July, as part of additional drilling works in the **TSP (Teak, Samaan and Poui) production asset, in the waters of Trinidad and Tobago**, the **discovery of additional hydrocarbon volumes** in the TB14 well was announced. This well is located to the north of the Teak field. In addition the **TB13 well began production** in June. Repsol is the operator of the project with a 70% stake.

5.2) DOWNSTREAM

Main figures and indicators

	June 2014	June 2013
Refining capacity (kbbl/d)	**998**	**998**
Europe (including stake at ASESA)	896	896
Rest of the world	102	102
Conversion index (%)	**59**	**59**
Crude processed (million t)	**19.2**	**19.3**
Europe	17.6	17.7
Rest of the world	1.6	1.6
Refining margin indicator ($/Bbl)		
Spain	3.5	3.2
Peru	1.8	2.4
Number of service stations	**4,618**	**4,589**
Europe	4,258	4,249
Rest of the world	360	340
Oil product sales (kt)	**21,143**	**21,290**
Europe	19,046	19,148
Rest of the world	2,097	2,142
Petrochemical product sales (kt)	**1,334**	**1,197**
Europe	1,105	1,033
Rest of the world	229	164
LPG sales (kt)	**1,219**	**1,273**
Europe	721	779
Rest of the world	498	494
LNG sold in North America (Tbtu)	**149.6**	**86.2**
LNG regasified in Canaport (Tbtu)	**13.6**	**27.5**

Results and investments

Millions of euros	June 2014	June 2013	Variation
Europe	299	240	25%
Rest of the world	153	110	39%
Adjusted Net Income (1)	**452**	**350**	**29%**
Inventory Effect (1)	-54	-153	65%
MIFO recurrent net income (1)	**398**	**197**	**102%**
EBITDA	**948**	**635**	**49%**
Operating Investments(2)	**283**	**226**	**25%**
Effective Tax Rate	**27%**	**32%**	**-5%**

(1) In 2014, the majority of investments for the period were used for operating improvements at facilities and to fuel quality, in addition to safety and the respect of the environment.

Main events of the first semester 2014

- On 1 January 2014, having obtained the necessary authorisations, the sale of the share in **Repsol Comercializadora de Gas S.A.,was completed**, which mainly sells, transports and trades natural gas.
- On 3 April, the Spanish Markets and Competition Commission authorised Repsol's purchase of 45% of Petrocat from CEPSA, which is subject to the fulfilment of commitments offered by Repsol.

- On 4 July, Royal Decree 8/2014 was passed, on urgent measures for growth, competition and efficiency, which, **with respect to bottled LPG, liberalises the pricing** of bottles with an empty weight of less than 9 kg. Additionally, the Royal Decree includes measures on energy efficiency which include the creation of the Energy Efficiency Fund, to which gas and electricity companies must make an annual financial contribution, as must wholesale oil product operators and wholesale liquid gas operators, thus affecting LPG and fuels.
- On 9 May, three favourable sentences were notified by the Contentious Administrative Court of the National High Court ("Audiencia Nacional") awarding Repsol's right to compensation for damages caused by the application of a price cap formula on **regulated bottled LPG** arising from Order ITC 2608/2009, in force between October 2009 and September 2012.
- During the six month period, progress has been made as planned to the **new cutting edge lubricant bases production plan** in Cartagena (facility owned jointly by Repsol with the Korean company SKL), which is planned for commissioning in the last quarter of 2014.
- With respect to the Dynasol growth project in Asia, via a joint venture in China for the **installation of a 100 ktn per year synthetic rubber plant** with a local partner (Shanxi Norther Xing´an Chemical Industry), the financing requested was approved in the first half of this year, construction has moved forward and the process of hiring personnel has begun, with training and commissioning planned to begin in the second half of the year.
- During the first six months of the year, the Group has maintained its policy of **associations with the market's leading companies**:
  - Repsol and **El Corte Inglés** have expanded their collaboration, to now have up to 100 Supercor Stop & Go shops in Repsol Service Stations.
  - Repsol and **Renault** have reached an agreement to promote sales of Renault and Dacia cars fuelled by **AutoGas**.
  - Repsol and **Michelin** continue to have a strategic agreement in place to **boost the distribution and sale of their respective products**.
  - **AIMIA**, the international leader in loyalty programmes, has bought a stake in Air Miles, a company partly owned by Repsol, which manages the **Travel Club** programme.
- Continuing its **AutoGas business expansion policy**, Repsol has increased the number of service stations offering the product in Spain by 40.

APPENDIX I: RECONCILIATION OF ADJUSTED RESULTS WITH IFRS ADOPTED BY THE EUROPEAN UNION

	FIRST HALF OF 2014					
		ADJUSTMENTS				
€ Million	**Adjusted Result**	**Joint Ventures reclassification**	**Non-recurring items**	**Inventory Effect**	**Total adjustments**	**IFRS-EU RESULTS**
Operating Income	1,158	(464)	(183)	(81)	(728)	430
Financial Result	(176)	(57)	443	-	386	210
Share of results of companies accounted for using the equity method- net of tax	295	335	49	-	384	679
Net Income before tax	**1,277**	**(186)**	**309**	**(81)**	**42**	**1,319**
Income tax	(342)	186	(118)	24	92	(250)
Net income from continued operations	**935**	**-**	**191**	**(57)**	**134**	**1,069**
Net income from continuing operations attributable to minority interests	(13)	-	0	3	3	(10)
Net income from continuing operations attributable to the parent	**922**	**-**	**191**	**(54)**	**137**	**1,059**
Income from discontinued operations						268
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	**922**	**-**	**191**	**(54)**	**137**	**1,327**

	FIRST HALF OF 2013					
		ADJUSTMENTS				
€ Million	**Adjusted Result**	**Joint Ventures reclassification**	**Non-recurring items**	**Inventory Effect**	**Total adjustments**	**IFRS-EU RESULTS**
Operating Income	1,476	(407)	(42)	(232)	(681)	795
Financial Result	(248)	-	3	-	3	(245)
Share of results of companies accounted for using the equity method- net of tax	282	143	(21)	-	122	404
Net Income before tax	**1,510**	**(264)**	**(60)**	**(232)**	**(556)**	**954**
Income tax	(591)	264	(27)	69	306	(285)
Net income from continued operations	**919**	**-**	**(87)**	**(163)**	**(250)**	**669**
Net income from continuing operations attributable to minority interests	6	-	-	10	10	16
Net income from continuing operations attributable to the parent	**925**	**-**	**(87)**	**(153)**	**(240)**	**685**
Income from discontinued operations						216
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	**925**	**-**	**(87)**	**(153)**	**(240)**	**901**

APPENDIX II: RECONCILIATION OF OTHER ECONOMIC DATA WITH IFRS ADOPTED BY THE EUROPEAN UNION

NET FINANCIAL DEBT (€ Million)	DECEMBER 2013	FIRST HALF OF 2014
Net financial debt of integrated businesses	**(5,358)**	**(2,392)**
Net financial debt of arrangement ventures	(2,147)	(2,018)
Net market valuation of derivatives ex-exchange rate	(62)	(97)
Net financial debt according to financial statements IFRS-UE	**(7,567)**	**(4,507)**
Non-current financial instruments	665	460
Other current financial assets	354	1,616
Cash and cash equivalents	5,716	6,845
Non-current financial liabillities	(8,469)	(7,222)
Current financial liabilities	(5,833)	(6,206)

OTHER ECONOMIC DATA 1S 2014 (€ Million)	According to net debt evolution	Joint arragement adjustments	Financial Investments / Divestments	According to CFS IASB-UE
EBITDA	2,202	(643)	-	1,559
Investment payments	(1,658)	458	(904)	(2,104)
Divestments (1)	4,731	(6)	-	4,725

(1) Includes €139 million of divestments and €4,592 million corresponding to the monetization of Argentinian sovereign bonds and the sale of non-expropriated YPF shares (included in *"Effects related to the expropriation of YPF"*, in the *"Net debt variation"* graph in Note 4).

APPENDIX III: CONVERSION TABLE AND GLOSSARY

			OIL				GAS		ELECTRICITY
			Litres	Barrels	Cubic metres	toe	Cubic metres	Cubic feet	kWh
OIL	1 barrel [1]	bbl	158.99	1	0.16	0.14	162.60	5,615	1.7×10^6
	1 cubic metre [1]	m^3	1,000	6.29	1	0.86	1,033	36,481	10,691.5
	1 ton of oil equivalent [1]	toe	1,160.49	7.30	1.16	1	1,187	41,911	12,407.4
GAS	1 cubic metre	m^3	0.98	0.01	0.001	0.001	1	35.32	10.35
	1,000 cubic feet=1.04×10^6 Btu	ft^3	27.64	0.18	0.03	0.02	28.3	1,000	293.1
ELECTRICITY	1 megawatt hour	MWh	93.53	0.59	0.10	0.08	96.62	3,412.14	1,000

[1] Reference measurement: 32.35 °API and relative density 0.8636

			Metre	Inch	Foot	Yard
LENGTH	metre	m	1	39.37	3.281	1.093
	inch	in	0.025	1	0.083	0.028
	foot	ft	0.305	12	1	0.333
	yard	yd	0.914	36	3	1

			Kilogram	Pound	Ton
MASS	kilogram	kg	1	2.2046	0.001
	pound	lb	0.45	1	0.00045
	ton	t	1,000	22.046	1

			Cubic feet	Barrel	Litre	Cubic metres
VOLUME	cubic foot	ft^3	1	0.1781	28.32	0.0283
	barrel	bbl	5,615	1	158.984	0.1590
	litre	l	0.0353	0.0063	1	0.001
	cubic metre	m^3	35.3147	6.2898	1,000	1

Term	Description	Term	Description	Term	Description
bbl	Barrel	**kbbl**	Thousand barrels of oil	**Mm^3/d**	Million cubic metres per day
bcf	Billion cubic feet	**kbbl/d**	Thousand barrels of oil per day	**Mscf/d**	Million standard cubic feet per day
bcm	Billion cubic meters	**kboe**	Thousand barrels of oil equivalent	**MW**	Million watts
boe	Barrels of oil equivalent	**kboe/d**	Thousand barrels of oil equivalent per day	**Mwe**	Million electric watts
Btu	British thermal unit	**km^2**	Square kilometre	**MWh**	Million watts per hour
LPG	Liquefied Petroleum Gas.	**kt**	Thousand tons	**TCF**	Trillion cubic feet
LNG	Liquefied Natural Gas.	**Mbbl**	Million barrels	**toe**	ton of oil equivalent
Gwh	Gigawatts per hour	**Mboe**	Million barrels of oil equivalent	**USD**	US dollar