

JANUARY-DECEMBER 2016 RESULTS

Press release
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REPSOL BEATS EXPECTATIONS AND REACHES A NET INCOME OF 1.736 BILLION EUROS IN 2016

- The company reported its highest net income in four years in 2016, reflecting the strength and flexibility of its business units and the success of the action plan put in place in response to falling crude oil and gas prices.
- Adjusted net income, at 1.922 billion euros, also exceeded that of 2015. This is especially significant considering that 2015 included 500 million euros in exceptional financial gains related to the sale of the company's stake in YPF.
- The company's EBITDA reached 5.226 billion euros, an 18% increase from the 4.416 billion reported the previous year.
- The company ended the year with average hydrocarbons production of 690,200 barrels of oil equivalent per day (boe/d), a 23% increase from 558,900 boe/d in 2015.
- The Upstream unit (exploration and production) showed a great capacity to adapt to lower oil prices, and achieved an income of 52 million euros, 977 million euros greater than the previous year.
- The Downstream unit (Refining, Chemicals, Marketing, Lubricants, Trading, LPG and Gas & Power) confirmed its strength with an adjusted net income of 1.883 billion euros. This growth reflects the competitive advantages of its integrated business model, the quality of its refining assets and the good performance of the Chemicals and commercial businesses.
- Net debt fell 32% to 8.144 billion euros (1.6 times EBITDA), based on the strong cash generation capacity of the company's business units, the success of its efficiency program and its asset management.
- Repsol's shares rose 33% and recorded one of the largest increases on the IBEX35 index and in the European oil and gas industry.

In 2016, Repsol reported the highest net income in the last four years due to the strength and flexibility shown by its business units, especially after the acquisition of Talisman, and the efficiency of the action plan put in place to counter the decreases in raw material benchmark prices of 56% (Brent) and 53% (Henry Hub) in the last two years.

As a consequence, net income reached 1.736 billion euros, more than 3.1 billion euros higher than the net income reported in 2015, when the company booked extraordinary impairments to address the possibility of an ongoing depressed price situation for crude oil and gas.

The adjusted net income of 1.922 billion euros was 4% greater than the 1.852 billion euros reported in 2015, a year that included exceptional income of 500 million euros, primarily from the company's position in dollars after monetizing the expropriation of YPF.

The strength of Repsol's business units was reflected in its EBITDA, which reached 5.226 billion euros, 18% higher than the previous year, and was also aided by savings that were the result of efficiency programs.

The capacity of the businesses and the success of measures applied (efficiency, portfolio management and synergies) allowed the company to reduce its net debt by 3.79 billion euros, or 32%, to 8.144 billion euros at the end of 2016. The net debt to EBITDA ratio improved by 42% to 1.6 times. At year-end, the company's liquidity amounted to 9.3 billion euros.

In 2016, Repsol exceeded its synergies and efficiencies objective for the year, achieving more than 1.6 billion euros, or 150% of the initially forecasted amount. In 2017, the company will increase this figure to 2.1 billion euros in savings, exceeding expectations and bringing forward by a year an objective initially set for 2018.

All of Repsol's business units reported positive results in the past year. Upstream's performance was especially noteworthy, with a 977 million-euro increase in its adjusted net income with respect to the previous year. Downstream obtained an adjusted net income of 1.883 billion euros, due to the competitive advantages of its integrated business model, the quality of its refining assets and the excellent performance of the Chemicals area as well as Repsol's commercial businesses.

The company ended the year with average production of 690,200 barrels of oil equivalent per day, 23% more than 2015.

In terms of raw materials benchmarks, during 2016 the Brent crude oil benchmark fell 17% and the Henry Hub gas benchmark declined 8% compared to 2015.

In 2016, Repsol's shares rose by 33%, one of the largest increases among comparable European companies and on the IBEX35 index. Also, in the scrip dividend paid in January which replaces the traditional interim dividend for 2016, investors holding 80% of free-of-charge allocation rights opted to receive new shares from the company.

Faithful to its environmental commitments and to the objectives of the Paris Climate Summit (COP21), in 2016 Repsol continued improving in measures of energy efficiency. The company has decreased its annual emissions over the last 10 years by more than 4 million tons of CO₂, and will cut an additional 1 million tons by 2020 while at the same time increasing its competitiveness.

UPSTREAM: FLEXIBILITY AND INCREASED EARNINGS

The adjusted net income of the Upstream area grew by 52 million euros, an improvement of 977 million compared to the previous year, due to the company's flexibility and capacity to adapt to the new price scenario.

Within its efficiency and synergy program, the unit obtained savings of more than 900 million euros, significantly surpassing the target set for 2016. The program includes commercial, technical and process improvement initiatives that, in addition to improving cash generation in the short term, will also increase the company's sustainability and efficiency in the medium and long term.

The positive performance of the Upstream area is especially noteworthy considering the depressed price scenario in international raw materials benchmarks, with an average Brent price of 43.7 dollars per barrel and an average Henry Hub price of 2.5 dollars per million Btu.

Average production increased 23% in the year to 690,200 boe/d, mainly the result of contributions from assets in Brazil, Norway, Venezuela, North America and Peru.

In late December, Repsol resumed operations in Libya. At the current rate of production, this activity yields an additional 20,000 barrels of oil equivalent per day for Repsol.

In 2016, Repsol increased its oil and gas reserves to 2.382 billion barrels of oil equivalent, with a replacement rate of 103%. These reserves and projects already underway guarantee average production of 700,000 barrels per day through 2020, which will be maintained through 2025 by other discoveries already made and whose development will start in the next two years. In parallel with this production, the company will maintain a 100% average reserve replacement rate through 2020.

DOWNSTREAM: STRENGTH OF THE INTEGRATED MODEL

Adjusted net income for the Downstream area totaled 1.883 billion euros, in line with the 2.15 billion euros reported in 2015, when exceptionally high refining margins were recorded.

In 2016, Repsol maintained its leading position in Europe in terms of margins in its industrial and commercial business, the result of the high quality of company assets, operational improvements carried out and active management of commercial opportunities.

The Chemicals business exceeded its strong results of 2015 by 30%, driven by the consolidation of important efficiency and process improvements, investments in differentiation and the internationalization strategy implemented in recent years, all enhanced by the strong demand context and international margins.

In addition to this strong performance from Chemicals, the commercial businesses increased earnings, taking advantage of the reduction in marketing costs and increased income from LPG.

With regard to Refining, planned maintenance shutdowns at the industrial facilities throughout the year in Cartagena and Tarragona had an impact on the company's main indicators. Repsol increased distillation and the conversion of units in the second half of the year after the completion of the maintenance program planned for 2016.

The refining margin indicator in Spain was 6.3 dollars per barrel in 2016, compared to 8.5 dollars per barrel in 2015. The fourth quarter of the year saw a positive trend, and margins recovered to reach 7.2 dollars per barrel.

REPSOL RESULTS BY SEGMENTS ⁽¹⁾

(Figures not audited)

Million euros	JANUARY- DECEMBER	
	2015	2016
Upstream	(925)	52
Downstream	2,150	1,883
Corporate and others	627 *	(13)
ADJUSTED NET INCOME	1,852	1,922
Inventory effect	(459)	133
Special items	(2,791)	(319) **
NET INCOME	(1,398)	1,736

(*) Includes financial results for an amount of 500 million euros, mainly due to the company's dollar position following the monetizing of the expropriation of YPF.

(**) Special items are comprised mainly of workforce restructuring costs (-393 million euros) and other provisions, as well as net capital gains from asset divestments.

KEY BUSINESS FIGURES ⁽¹⁾

(Figures not audited)

	JANUARY - DECEMBER		Variation (%)
	2015	2016	
Oil and gas production (Thousand boepd)	559	690	23.5
Crude processed (million tons)	43.3	43.2	(0.1)
Sales of oil products (Thousand tons)	47,605	48,048	0.9
Sales of petrochemical products (Thousand tons)	2,822	2,892	2.5
LPG sales (Thousand tons)	2,260	1,747	(22.7)

(1) Repsol presents its operating segments results by including those corresponding to its joint ventures and other managed companies operated as such, in accordance with the percentage interest held by the Group, considering their business and financial metrics in the same manner and with the same level of detail as for fully- consolidated companies. For additional information, see Note 2.3 "Segment Reporting" of the Consolidated Financial Statements for the full year 2016.

PRODUCTION BY GEOGRAPHICAL AREA *
(Barrels of oil equivalent per day)

Europe, Africa and Brazil	109 kboe/d
Latin America and Caribbean	301.7 kboe/d
North America	181.9 kboe/d
Asia & Russia	97.6 kboe/d
TOTAL PRODUCTION	690.2 kboe/d

(*) Data corresponds to average production during 2016.

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In October 2015, the European Securities Markets Authority (ESMA) published the Guidelines on Alternative Performance Measures (APM), of mandatory application for the regulated information to be published from 3 July 2016. Information and disclosures related to APM used on the present press release are included in Appendix I "Alternative Performance Measures" of the Management Report for the full year 2016.

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