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## AFFECTED BY A WEAK DOLLAR

# REPSOL YPF'S NET INCOME REACHES 2.448 BILLION EUROS

- Refining and marketing results increase 3.6%
- Sales of petroleum products grow more than 5%
- Chemical division results raise 3%
- Power and gas results gain 8.3%
- Debt is reduced by 33%
- Financial charges are reduced by 70%

During the first nine months of 2007, Repsol YPF registered a net income of 2.448 billion euros, 7.7% lower to the same period of last year. This reduction is mainly due to the 8% depreciation of the dollar against the euro, which transitioned from 1.24 dollars/euro for the first nine months of 2006 to 1.34 dollars/euro for the same period of 2007.

Operating results for the company, which books its revenues in dollars and reports its income in euros, was affected by the exchange of the euro/dollar by 276 million euros, reaching 4.267 billion euros versus the 5.066 billion euros for the first nine months of last year. EBITDA ascended to 6.381 billion euros.

By activity area, it is worthy to note the 3.6% results growth of refining and marketing, situating the results in 1.669 billion euros. Likewise, noting the registered growth in the chemical and power and gas areas, increasing 2.9% and 8.3%, respectively. The operating results in exploration and production decreased by 28.3%, specially affected by the euro/dollar exchange effect, generalized increase of sector costs and by lower production.

**Significant debt reduction. Financial charges are reduced by 70%**

Repsol YPF's net debt as of September 2007 stood at 3.936 billion euros, versus 5.870 billion euros registered in September of 2006, representing a reduction of 32.9%.

In addition to this reduction of the debt, the financial prudence policy developed by the company was reflected by a significant drop in financial charges, which reached 117 million euros during the January-September period versus the 387 million euros for the same period of the previous year. This reduction of 69.8% is attributable to, amongst other factors, lower interest expenses as a consequence of lower average net debt of the company, the increase of returns of financial investments and the positive effects of exchange rate differences.

The investments during the first nine months of 2007 ascended to 3.646 billion euros, and were mainly destined to the areas of exploration and production (2.184 billion euros) and refining and marketing (588 million euros).

**BUSINESS AREAS****Exploration and production: investment of 2.184 billion euros**

The operating results of exploration and production during the January-September 2007 period were 2.073 billion euros versus 2.890 billion euros in the same period of 2006. This decrease is due, amongst other factors, to the depreciation of the dollar against the euro, which has had a negative impact of 167 million euros, the lower production of oil and gas and contractual variations posting lower results of 239 million euros, cease of the Dubai activity (123 million euros), generalized sector costs increment (189 million euros), as well as technical amortizations (85 million euros) and the higher exploration activity, adding higher exploration costs and reducing results in 109 million euros.

Total hydrocarbon production for the first nine months of 2007 reached 1,058,300 barrels equivalent per day, 7% less than the previous year. This reduction is mainly due to less production in Venezuela as a consequence of the operating agreements migrating to mixed companies; in Bolivia due to the start of the new contracts; in Dubai due to finalizing the activities and in Argentina due to damage of the Magallanes pipeline and the decline of specific fields.

Excluding the effects of the contractual variations in Dubai, Venezuela and Bolivia, the production levels of the first nine months of 2007 were maintained at similar levels of 2006, with a slight reduction of 0.5%. The mentioned effects were partially compensated with the higher production in the rest of the areas, especially Brazil, Trinidad & Tobago and Libya.



The investments through September 2007 in exploration and production reached 2.184 billion euros, fundamentally destined to the Genghis Khan acquisition in the Gulf of Mexico, the capital investments in the regasification projects of Canaport (Canada) and Peru LNG, as well as investments in development.

#### **Refining and marketing: sales grow 5.3%**

The operating results of refining and marketing to September 2007 reached 1.669 billion euros, versus 1.611 billion euros for the same period of the previous year, representing a growth of 3.6%.

This increase of the results is a consequence of improved refining margins in 0.94 \$/barrel coupled with increased level of distillation. The refining margin indicator for the January-September 2007 was 7.52 dollars/barrel versus the 6.58 dollars/barrel for the same period in 2006. In marketing, the commercialization margins had good behaviour in Spain as in Argentina.

Total sales for petroleum products reached 46.1 million tonnes, an increment of 5.3%. In ABB (Argentina, Bolivia, Brazil), sales increased 11.7%, whilst in Spain they were superior by 0.2%. In the rest of the world sales grew by 14.4%, surpassing 7 million tonnes. Also, sales in inside marketing increased in ABB (12.3%), in the rest of the world (24%) and in Spain (0.3%).

Total global sales for LPG slightly increased by 0.8%, with reductions of 2.3% in Spain and 5.2% in ABB; however there was strong growth in the rest of Latin America (11.1%) and the rest of the world (11.1%).

Investments in refining and marketing during the first nine months of 2007 ascended to 588 million euros, 19.5% superior to the previous exercise, and were principally destined to current refining projects and upgrading operations and installations, safety and environment, quality of fuels and conversion.

#### **Chemicals: 2.9% results increase**

Results of operations in the chemical area for the period January-September 2007 reached 214 million euros versus 208 million euros for the same period of 2006, representing an increment of 2.9%. This increase is a result of better international margins in the European chemical business and in spite of lower production in Argentina due to the natural gas supply restrictions.

Total sales for petrochemical products reached 3.486 billion tonnes, a 4% reduction from the same period of the previous year.



Investments in the petrochemical area through September of 2007 reached 121 million euros, 5.5% lower than the same period of the previous year. The main investments underway are the construction of a benzene plant and the capacity expansion of the propylene oxide/styrene monomer, both in Tarragona.

**Power and gas: results grow by 8.3%**

Operating results in the area of power and gas for the period of January-September 2007 ascended to 391 million euros, versus 361 million euros for the same period of the previous year, representing an increase of 8.3%. These results reflect the favourable evolution of Gas Natural SDG results, noting growth of the distribution activity in Spain and Latin America and, specially, the commercialization of natural gas in Spain.

Investments in power and gas were 221 million euros, lower by 6.4% to the first nine months of the previous year and were fundamentally dedicated to distribution activity in Spain and power generation projects.



## **THIRD QUARTER HIGHLIGHTS**

### **Oil discovery in Brazil**

Last September, Repsol YPF announced the discovery of a new oil field in deep waters of the Santos Basin in Brazil, located 273 km from the Sao Paulo coast. The new field, named Carioca, is situated in the BM-S-9 Block, operated by Petrobras with a 45% stake, and where Repsol YPF Brazil has a 25% stake and British Gas a 30%. The discovery well registered a production test of 2,900 barrels of crude oil and 57,000 cubic meters of gas per day. In the Santos Basin, Brazil Repsol YPF leads, along with Petrobras, the exploratory activity participating in 19 blocks, 9 of which as operator.

### **Gas supply contract in Mexico**

On September 19, Repsol YPF won a contract in an international tender sponsored by the Mexican Federal Electricity Commission (CFE) for the supply of liquefied natural gas (LNG) to the gas terminal at Manzanillo, located on the Mexican Pacific coast. The contract, with an estimated value reaching 15 billion dollars, provides for the supply of LNG to the Mexican plant during a 15 year period. The total volume of gas supplied during this period will exceed 67 bcm, a quantity equivalent to more than double Spain's annual consumption. The source of the LNG supplied will be from the liquefaction plant in Camisea, south Peru, of which Repsol YPF is the exclusive trader.

### **Agreement for the sale of the service stations in Chile**

In the month of November, Repsol YPF and the Colombian company, Organización Terpel, signed a sales/purchase agreement of the commercialization of liquid fuel activities in Chile, valued at US \$210 million, including debt. This transaction is expected to be concluded by 31 December 2007, at which time the Colombian company will assume the management of the business.

The agreement includes the sale of the network of 206 Repsol YPF service stations through out Chile (includes Repsol YPF service stations, franchises and the adjunct businesses of convenience stores) as well as the industrial sales business, including the commercial and logistics infrastructure.

Repsol will maintain its aviation, lubricants and specialties and LPG (liquid petroleum gas) businesses in the country, leading in the LPG sector through its participation (45%) in Lipigas. This sale forms part of the strategy of rationalization of the downstream assets not integrated, developed by Repsol YPF in the region, and of focusing its activity in other areas and strategic businesses.



### **815 million euros for the sale of the Foster Tower to Caja Madrid**

The past July 30th, Repsol YPF and Caja Madrid signed the agreement for the sale of the tower to Caja Madrid, situated on the Paseo de la Castellana in Madrid. The amount of the transaction ascends to 815 million euros, of which 70% was paid at the signing of the agreement and the remaining 30% will be paid upon delivery of the tower. In January 2007, Repsol YPF decided to initiate a sales process with the professional advice of Goldman Sachs, Aguirre Newman and Uría Menéndez to identify potential buyers. After analyzing 36 non-binding offers, the process has concluded with this sales agreement.

### **40% more dividend**

On October 31<sup>st</sup>, Repsol YPF's Board of Directors agreed to distribute a gross interim dividend of 0.50 euros per share for the 2007 exercise, to be paid in January 2008. That poses an increment of 40% with respect to last year's interim dividend, which was 0.36 euros per share, and is in line with the general principal of the 2005-2009 Strategic Plan, which contemplated a pay out band of between 40 and 50%.

### **Gassi Touil**

On September 3, 2007 Repsol YPF made public Sonatrach's decision to rescind the contract for the integrated project Gassi Touil, awarded to Repsol YPF and Gas Natural SDG in the 2004 international tender. Both companies regret and reject the Algerian decision to take possession of the Project in an illegitimate way and will defend their rights in an international arbitration procedure, which according to the contract, will decide over the validity of the pretended resolution and the caused damages and losses.

### **Agreement for the "Class Action"**

The past 29<sup>th</sup> of August, Repsol YPF announced the 8 million dollars agreement reached with the US plaintiffs in a "Class Action" suit filed in connection with the downward revision of the company's reserves announced on January 26, 2006, and which absolves the company from any liability. Preliminary approval of this agreement has been granted by the United States District Court for the Southern District of New York.

**Leaders in transparency, social dimension and climate change**

For the second consecutive year, Repsol YPF maintains its place in the selective global sustainability indexes Dow Jones Sustainability World and the European Dow Jones Sustainability STOXX, conserving the maximum score from the previous year in transparency and human capital development and attained a new maximum qualification in community social impact. The company's total score is "Best in Class" of the sector in social dimension and in the economic dimension Repsol YPF attains the highest sector score in client relations.

Additionally, it has again been included in the Climate Disclosure Leadership Index (CDLI) with the best sector punctuation due to its focus and management before climate change. The CDLI is calculated annually and is made public as part of the report created by the Carbon Disclosure Project (CDP), a platform of more that 315 investors representing more than 41 trillion US dollars in assets

On the other hand, October 16<sup>th</sup> past, the Chairman of Repsol YPF, Antonio Brufau, received the AEMEC Award for Transparency (Premio AEMEC a la Transparencia), awarded by the Spanish Association of Minority Shareholders (Asociación Española de Accionistas Minoritarios – AEMEC), which values Repsol YPF's efforts in transparency and its relations with the different interest groups, in particular the minority shareholders. AEMEC's decision has put forth particular consideration to Repsol YPF's efforts in the management transparency of its corporate web page, which number of visits and pages visited, eight million and one hundred million respectively, guarantee it as one of the most visited of the IBEX-35.





## **REPSOL YPF SUMMARISED INCOME STATEMENT**

**(Million euro)**

(Unaudited figures)

Compiled in accordance with International Financial Reporting Standards

|  | January – September |              | Variation     |
|--|---------------------|--------------|---------------|
|  | 2006                | 2007         | %             |
| <b>Revenues from continuous operations before financial expenses</b> | <b>7,135</b>        | <b>6,381</b> | <b>(10.6)</b> |
| Income from continuous operations before financial expenses          | 5,066               | 4,267        | (15.8)        |
| Financial expenses   | (387)               | (117)        | (69.8)        |
| Income from discontinued operations before tax                       | -                   | -            | -             |
| Income before tax and income from associates                         | 4,679               | 4,150        | (11.3)        |
| Income tax   | (1,890)             | (1,645)      | (13.0)        |
| Share in income from companies carried by the equity method          | 73                  | 76           | 4.1           |
| Income for the period  | 2,862               | 2,581        | (9.8)         |
| Income attributable to minority interests                            | 211                 | 133          | (37.0)        |
| <b>NET INCOME</b>  | <b>2,651</b>        | <b>2,448</b> | <b>(7.7)</b>  |

## **BREAKDOWN OF REPSOL YPF INCOME FROM CONTINUOUS OPERATIONS**

### **BEFORE FINANCIAL CHARGES, BY ACTIVITIES**

**(Million euro)**

(Unaudited figures)

Compiled in accordance with International Financial Reporting Standards

|                          | January – September |              | Variation     |
|--------------------------|---------------------|--------------|---------------|
|                          | 2006                | 2007         | %             |
| Exploration & production | 2,890               | 2,073        | (28.3)        |
| Refining & marketing     | 1,611               | 1,669        | 3.6           |
| Chemicals                | 208                 | 214          | 2.9           |
| Gas & power              | 361                 | 391          | 8.3           |
| Corporate & others       | (4)                 | (80)         |               |
| <b>TOTAL</b>             | <b>5,066</b>        | <b>4,267</b> | <b>(15.8)</b> |





### REPSOL YPF OPERATING HIGHLIGHTS

|  | January – September |         | Variation |
|--|---------------------|---------|-----------|
|  | 2006                | 2007    | %         |
| Oil and gas production<br>(Thousand boepd)         | 1,137.5             | 1,058.5 | (7.0)     |
| Sales of oil products<br>(Thousand tons)           | 43,781              | 46,105  | 5.3       |
| Sales of petrochemical products<br>(Thousand tons) | 3,629               | 3,486   | (4.0)     |
| LPG sales<br>(Thousand tons)                       | 2,770               | 2,792   | 0.8       |

### REPSOL YPF COMPARATIVE BALANCE SHEET

(Million euro)

(Unaudited figures)

Compiled in accordance with International Financial Reporting Standards

|  | December      | September     |
|--|---------------|---------------|
|  | 2006          | 2007          |
| Goodwill   | 3,422         | 3,278         |
| Other intangible assets                                  | 1,156         | 1,033         |
| Property, plant & equipment                              | 23,475        | 23,660        |
| Long term financial instruments                          | 1,170         | 1,526         |
| Other non-current assets                                 | 903           | 979           |
| Deferred tax assets                                      | 913           | 842           |
| Assets held for sale                                     | 249           | 5             |
| Current assets   | 11,069        | 13,462        |
| Temporary cash investments and cash on hand and in banks | 2,844         | 2,069         |
| <b>TOTAL ASSETS</b>                                      | <b>45,201</b> | <b>46,854</b> |
| Total equity   | 18,042        | 19,329        |
| Long term provisions                                     | 2,957         | 2,793         |
| Deferred tax liabilities                                 | 2,707         | 2,513         |
| Subsidies and deferred revenues                          | 224           | 234           |
| Preferred shares   | 3,445         | 3,473         |
| Non-current financial debt                               | 7,038         | 6,550         |
| Financial lease liabilities                              | 561           | 539           |
| Other non-current debt                                   | 449           | 581           |
| Current financial debt                                   | 1,556         | 1,182         |
| Other current liabilities                                | 8,222         | 9,660         |
| <b>TOTAL EQUITY AND LIABILITIES</b>                      | <b>45,201</b> | <b>46,854</b> |