

JANUARY-JUNE 2016 RESULTS

Press release
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REPSOL POSTS ADJUSTED NET INCOME OF 917 MILLION EUROS

- Provisions of 346 million euros were made in the first half earnings to cover the restructuring of the workforce previously approved by the company.
- All Repsol's business areas achieved positive results, which is especially significant given depressed oil prices. There was a 31% fall in Brent prices and a 28% fall in Henry Hub prices compared with the same period of the previous year.
- Adjusted net income was 917 million euros compared with 1.24 billion euros in the first six months of 2015, which included exceptional financial results of 500 million euros.
- The Upstream business unit (Exploration and Production) increased its adjusted net income by 301 million euros compared with the first half of 2015.
- Average production was 705,500 barrels of oil equivalent per day, 60% more than that produced during the first half of 2015, primarily because of the incorporation of Talisman assets.
- The Downstream business unit (Refining, Chemicals, Marketing, Lubricants, Trading, LPG and Gas & Power) posted an adjusted net income of 934 million euros, with an outstanding contribution from the chemicals business, which improved its sales and margins.

Repsol posted an adjusted net income of 917 million euros in the first half of 2016, compared with 1.24 billion in the same period of the previous year. The first half of 2015 included exceptional financial results of more than 500 million euros, essentially due to the position in dollars that Repsol held after receiving payment for the expropriation of YPF, which subsequently went toward the acquisition of Talisman.

Net income was 639 million euros compared with 1.053 billion euros during the same period of the previous year. Included in this result was the total extraordinary expense of 346 million euros to cover the restructuring of the workforce approved by the company for 2016, 2017 and 2018.

In an environment of depressed crude oil and gas prices, the efficiency and savings measures implemented by Repsol have led to positive results for all business units. Particularly outstanding was the improvement in the net adjusted income of the Upstream area, which increased by 301 million euros compared with the same period of 2015.

During the period, international benchmarks suffered a notable decline in comparison with the first six months of 2015. The average Brent price dropped 31%, the WTI dropped 25% and Henry Hub declined 28%.

Average hydrocarbon production increased to 705,500 barrels of oil equivalent per day, 60% more than that produced during the same period in 2015, principally because of the incorporation of Talisman assets and the increases in production from Bolivia, Venezuela, Norway, Brazil and Peru.

The Downstream unit's results were in line with those obtained between January and June of the previous year with an especially strong performance from the Chemicals business, which improved its sales and margins.

Net debt decreased since the end of 2015, and stood at 11.709 billion euros at the end of the first half, while the company's liquidity covered nearly twice the amount of its gross short-term debt maturities. In recent months the company has taken advantage of market conditions to reduce the financial cost of its debt.

By the end of the first half the company had already implemented projects that ensure the achievement of approximately 70 percent of its objectives for synergies and efficiencies for 2016. Those savings are expected to be at least 1.2 million euros for the entire year.

On May 20th Repsol held its Annual General Meeting where, among other points, an extension of the "Repsol Flexible Dividend" program was approved as a means for shareholder compensation. During 2016, shareholders received dividends of approximately 0.80 euros per share. In the capital increase completed in July, investors holding 64.54% of free-of-charge allocation rights opted to receive new company shares.

UPSTREAM: SIGNIFICANT IMPROVEMENT IN RESULTS AND IN PRODUCTION

The adjusted net result of the Upstream unit improved by 301 million euros during the first six months of 2015, reaching 63 million euros. This improvement was made possible through the implementation of an ambitious efficiency program. Thanks to this program the company has increased savings and lowered exploration costs which, added to increased production and favorable exchange rates, contributed to the company's improved results.

The intense efficiency program being carried out by Repsol in the Exploration and Production business 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 unit is especially relevant considering the depressed oil and gas price scenario and the steep decline in prices compared with the same period of 2015. In the first six months of 2016, the average Brent price fell 31% compared with the same period of the previous year, the WTI price fell 25% and the Henry Hub price fell 28%.

At the same time, Repsol increased average production of hydrocarbons to 705.500 barrels of oil equivalent a day, a level that is in line with what was predicted by the company in its Strategic Plan 2016-2020. This figure represents an increase of more than 60% compared with the first half of 2015 and is fundamentally due to the incorporation of Talisman assets and the increase in production from Bolivia, Venezuela, Norway, Brazil and Peru.

During the second quarter, Repsol made a fourth find in the prolific Campos 33 block in Brazil, which marked the completion of a successful assessment campaign in this area. The campaign, called Gávea-1, was completed with significant cost reductions, in accordance with the efficiency measures laid out in the Strategic Plan 2016-2020.

During the month of April, Repsol also signed a 10-year extension of the production contract for the important PM3 block in Malaysia, which has five fields in production. Repsol owns a 35% stake in the project and is the operator.

DOWNSTREAM: CHEMICALS BUSINESS MAKES OUTSTANDING CONTRIBUTION

The net adjusted result for the Downstream area totaled 934 million euros, in line with the 973 million euros obtained between January and June 2015. The chemicals business made an outstanding contribution thanks to the improvement in its margins and sales, which increased 4%.

The increase in efficiency and the operational improvements carried out in the chemicals business allowed it to take advantage of the favorable market conditions and improve its results.

With regards to Refining, its main variables were impacted during the first half by maintenance shutdowns planned at the industrial facilities in Cartagena and Tarragona. With these shutdowns, Repsol has completed the planned maintenance program for 2016 in all of its facilities in Spain.

The refining margin indicator stood at 6.4 dollars per barrel, 2.5 dollars per barrel below the level obtained in the first half of 2015, impacted by changes in international prices.

GAS NATURAL FENOSA

Gas Natural Fenosa reported adjusted net income of 195 million euros, compared with 227 million euros in the same period of the previous year. This decline is due to lower results achieved by the business in the sale of gas due to the current price environment.

REPSOL RESULTS BY SEGMENTS ⁽¹⁾ *(Figures not audited)*

Million euros	JANUARY-JUNE		Variation (%)
	2015	2016	
Upstream	(238)	63	—
Downstream	973	934	(4.0)
Gas Natural Fenosa	227	195	(14.1)
Corporate and others	278	(275)	—
ADJUSTED NET INCOME	1,240	917	(26.0)
Inventory effect	(57)	2	—
Special items	(130)	(280)*	(115.4)
NET INCOME	1,053	639	(39.3)

(*)The specific earnings mainly include the cost of workforce restructuring (346 million euros) partly compensated by the net capital gains from the sale of assets (LPG in Peru, wind power business in the UK and a part of the sale of piped LPG assets in Spain.)

KEY BUSINESS FIGURES ⁽¹⁾ *(Figures not audited)*

	JANUARY-JUNE		Variation (%)
	2015	2016	
Oil and gas production (Thousand boepd)	440	705	60.2
Crude processed (million tons)	21	20	(5.0)
Sales of oil products (Thousand tons)	22,721	22,051	(2.9)
Sales of petrochemical products (Thousand tons)	1,424	1,477	3.7
LPG sales (Thousand tons)	1,230	1,052	(14.5)

(1) Performance by business segment and main indicators include those corresponding to joint ventures and other managed companies operated as such, in accordance with the percentage of interest held by the Group, considering its operational and economic metrics in the same manner and with the same detail as for fully consolidated companies. For additional information see Note 2.6 "Information by business segment" of the Interim Consolidated Financial Statements for the six-month period ended 30 June 2016.

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

Europe, Africa and Brazil	111.9 kboe/d
Latin America and Caribbean	304.6 kboe/d
North America	186.6 kboe/d
Asia & Russia	102.4 kboe/d
TOTAL PRODUCTION	705,500 boe/d

(*) Data corresponds to average production during the first semester of 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 Q2 2016 Results Earnings Release are included in Appendix I "Alternative Performance Measures" of the Interim Management Report for the six-month period ended 30 June 2016.

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