

RESULTS JANUARY-DECEMBER 2014

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Company strength shown in adverse times

REPSOL POSTS NET INCOME OF 1.612 BILLION EUROS

- The adjusted net income, which specifically measures the performance of the company's businesses, rose 27% to 1.707 billion euros.
- The results reflect the strength of Repsol's business model and its resilience to adverse scenarios, such as the sudden drop in crude oil prices (48% over the course of the year) or the interruptions to production in Libya.
- The fall in the price of crude reduced the value of inventories and reduced net profit for the year by 606 million euros.
- The businesses' strength and the success in recovering the value of the expropriated stake in YPF allowed the company to make an offer to acquire Talisman Energy (\$8.3 billion), doubling the size of Repsol's exploration and production unit.
- In the Downstream business, the efficiency of the company's assets resulted in a 111% increase in adjusted net income to 1.012 billion euros.
- Average hydrocarbon production increased by 2.5% to 354,500 barrels of oil equivalent a day. The increase would have been 8% without the interruption of activity in Libya.
- This increase in production was greatly exceeded for the fifth consecutive year by the group's increase in reserves, posting a reserve replacement ratio of 118%.
- Repsol made 12 discoveries in 2014, including finds in Brazil, Russia and the United States.

Repsol posted net income in 2014 of 1.612 billion euros, supported by the strength of its integrated business model. This result represents a 724% increase over the 195 million euros registered in 2013, a financial year in which the company booked one-time cleanup charges related to the expropriation of YPF.

Adjusted net income, which specifically measures the performance of the company's businesses, rose 27% to 1.707 billion euros. This result is especially significant considering the complex environment, especially the abrupt fall in international crude prices in the second half of the year, resulting in a 606 million-euro negative effect on earnings for the financial year, and the interruption of activity in Libya.

Both factors were mitigated by the start of production in strategic projects in Peru and Brazil and by the excellent result of the Downstream unit (Refining, Chemicals, Marketing, Trading, LPG and Gas & Power), which earned 1.012 billion euros, due mainly to the efficiency of the refining facilities and their technical capability to process heavy crudes.

UPSTREAM: MORE PRODUCTION, NEW DISCOVERIES

In the Upstream unit (Exploration and Production), the adjusted net income was 589 million euros compared to 980 million euros in 2013. This was due to suspended production in Libya and lower crude realization prices, affected by the abrupt fall in international benchmark prices during the second half of the year.

In this context, Repsol was able to increase its average production during the year by 2.5% to 354,500 barrels of oil equivalent a day, including 32,000 barrels of oil equivalent a day of new production from projects in Bolivia, Brazil, Peru, Russia and the United States.

With the launch of the Kinteroni project in Peru and the Sapinhoá oilfield in Brazil, the company has already started production from seven of the ten key projects included in its "2012-2016 Strategic Plan."

Furthermore, for the fifth consecutive year Repsol has incorporated more hydrocarbons to its reserves than it produced, with a replacement ratio of 118% for the financial year. The average replacement ratio for the last three years is around 200%, which is among the highest in the sector and which exceeds the targets set out in the "2012-2016 Strategic Plan."

Repsol continued with its successful exploration campaign throughout the year. Of the 34 wells drilled, 12 discoveries were made; this is a 35% exploration success rate, higher than the industry average.

Among these, the company discovered hydrocarbons in Brazil, Russia, the US, Bolivia and Trinidad and Tobago, enabling it to continue adding to its resources. Two discoveries were made in Russia that will add some 240 million barrels of recoverable resources, according to the Ministry of Natural Resources and Environment of the Russian Federation.

In the US Gulf of Mexico, the most significant discovery was at León in ultra-deep water with a high-quality net oil deposit more than 150 meters thick. In addition to this find, a second appraisal well was drilled in Buckskin, 50 kilometres from León, which also had positive results.

In Brazil, Repsol approved the development of one of the large offshore pre-salt exploration projects at the Lapa field. Production is expected to begin next year.

Phase III of the Margarita-Huacaya gas project was launched in Bolivia and will increase total production to 18 million cubic meters of gas a day from January 2016. This project includes the largest productive well in the history of the Sub-Andean Basin, drilled and operated by Repsol.

DOWNSTREAM: AMONG THE MOST EFFICIENT REFINERS IN EUROPE

Net income at the Downstream unit rose 111% to 1.012 billion euros (at Current Cost of Supply), as a result of improved refining and chemicals margins, driven by the execution of the Competitiveness Plan, as well as the greater volumes commercialised and the increase in gas margins in North America.

The downstream results continue to show the quality of the group's assets following the launch of the large-scale investment projects in Cartagena and Bilbao. These projects help Repsol maintain its position as a leader among its European competitors in terms of the integrated refining and marketing margin; \$4.1/barrel compared with \$3.3/barrel the previous financial year.

In the Gas & Power business, the greater volume commercialised in North America, along with the reduction of costs, drove a 44% rise in operating income during the year to 269 million euros.

FINANCIAL STRENGTH

At the close of the financial year, the group's debt was at a historical low of 1.935 billion euros. This, along with an accumulated liquidity of 9.844 billion euros, has created for Repsol a position of strength for a new growth phase.

Repsol's financial position was strengthened by the successful management of the recovery of the value of YPF, both in the compensation agreement and the subsequent monetisation of the assets received, for a total \$5 billion.

Following this operation, Repsol distributed an extraordinary dividend of one euro per share which, added to the ordinary dividend of approximately one euro per share, resulted in a yield of 12.6%, the highest amongst European majors. Total shareholder return, including share price performance, was also the highest among the eight largest European integrated oil and gas companies.

The company has reiterated its intention to continue with its scrip dividend policy as the shareholder remuneration method.

ACQUISITION OF TALISMAN ENERGY

In December 2014, the financial and business strength of the Repsol allowed it to make an offer to purchase Canadian oil company Talisman Energy, for \$8.3 billion plus debt. The deal was approved unanimously by Repsol and Talisman's boards, subsequently being approved overwhelmingly (99%) by a special meeting of Talisman shareholders.

The acquisition of Talisman Energy will make Repsol a larger, more balanced group in terms of the composition and geographical location of its assets. It will also give it better prospects for the future: The resulting Group will be among the largest in the world and will be more competitive, better diversified and have increased geographical diversification, incorporating assets that will serve as a platform for future value creation.

North America will become a key region for the new company, concentrating 58% of the capital employed in the upstream business. For its part, Latin America will have less weight upstream: 22% of the capital employed compared to its current 50%.

After the approval of the operation by the Talisman Energy General Shareholder's Meeting held on 18 February, Repsol hopes to obtain the necessary permits and regulatory authorisations to close the transaction in the second quarter of 2015.

[Click here for more information on the Talisman Energy operation](#)

REPSOL EARNINGS BY SEGMENT *

(Unaudited figures)

Million euros	OCTOBER-DECEMBER		Variation (%)
	4Q 2013	4Q 2014	
Upstream	162	4	(97.5)
Downstream	21	370	—
Gas Natural Fenosa	99	67	(32.3)
Corporate and others	(159)	(71)	55.3
ADJUSTED NET INCOME	123	370	200.8
Inventory effect	(64)	(489)	—
Non-recurring income	(156)	(245)	(57.1)
Income from discontinued operations	(995)	330	—
NET INCOME	(1,092)	(34)	96.9

Million euros	JANUARY-DECEMBER		Variation (%)
	2013	2014	
Upstream	980	589	(39.9)
Downstream	479	1,012	111.3
Gas Natural Fenosa	458	441	(3.7)
Corporate and others	(574)	(335)	41.6
ADJUSTED NET INCOME	1,343	1,707	27.1
Inventory effect	(187)	(606)	(223.9)
Non-recurring income	(277)	(86)	69.0
Income from discontinued operations	(684)	597	—
NET INCOME	195	1,612	—

OPERATING HIGHLIGHTS

(Unaudited figures)

	OCTOBER-DECEMBER		Variation (%)
	4Q 2013	4Q 2014	
Oil and gas production (Thousand boepd)	321	371	15.7
Crude processed (million tons)	8,8	9,9	12.6
Sales of oil products (Thousand tons)	10,747	11,056	2.9
Sales of petrochemical products (Thousand tons)	527	647	22.6
LPG sales (Thousand tons)	666	688	3.2

	JANUARY-DECEMBER		Variation (%)
	2013	2014	
Oil and gas production (Thousand boepd)	346	355	2.5
Crude processed (million tons)	38.1	39.5	3.7
Sales of oil products (Thousand tons)	43,177	43,586	0.9
Sales of petrochemical products (Thousand tons)	2,337	2,661	13.9
LPG sales (Thousand tons)	2,464	2,506	1.7

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