

Repsol International Finance B.V.

Annual report 2006
with auditors' report

Management report

(Amounts in thousands of U.S. Dollars)

The Managing Directors present their report together with the audited financial statements for the year ended December 31, 2006

Introduction

The company belongs to the Repsol YPF Group, a Spanish integrated oil company engaged in all aspects of the petroleum business and one of the largest industrial groups in Spain. The company is a wholly owned subsidiary of Repsol YPF, S.A., Madrid, Spain.

The issued and paid-in share capital of the company amounts to USD 395,861. The authorised and issued capital has not been modified during the year.

Activities

Its principal activities consist of financing and investing in subsidiaries and affiliated companies.

Funds denominated in U.S. Dollars are raised on the international capital markets by using a short-term commercial paper programme, a medium and long-term notes program and some bank credit facilities, which are lent to subsidiaries and affiliated companies, also in other currencies than U.S. Dollars. In this case the company hedges the foreign currency exposure by entering into foreign exchange contracts with major international banks.

Repsol YPF, S.A.'s acquisition of the Argentine oil and gas company YPF, S.A. pursuant to a cash tender offer launched on April 30, 1999, required an increase in the indebtedness levels of the Repsol YPF Group. In this respect, the company issued in 1999 notes amounting to EUR 6,650 million, EUR 3,250 million of which matured in the year 2000, EUR 1,000 million of which matured in the year 2001, EUR 1,000 million of which matured in the year 2002 and EUR 1,400 million of which matured in the year 2004.

Currently, as part of the required Repsol Group financing needs the existing bonds are the following, issued in 2000 for an amount of EUR 1,000 million which matures in 2010, issued in 2001 for an amount of EUR 175 million which matures in 2010, issued in 2003 for an amount of EUR 1,000 million which matures in 2013 and issued in 2004 for an amount of EUR 1,000 million which matures in 2014.

Bonds issued in 2001, amounting EUR 750 million, and 2003, amounting EUR 150 million, matured in 2006.

In February 2007 two bonds were issued amounting EUR 750 million which matures in February 2012 and EUR 500 million that matures in February 2017.

The company is the holder of shares in subsidiaries. These investments have been valued at cost or if permanently impaired, at lower recoverable value.

Result for the Year

The company made profit of USD 462,834 compared to also profit of USD 187,264 in 2005. This profit is primarily caused by a positive result from dividends from subsidiaries and interest.

Future Outlook

It is envisaged that the company will continue to provide loan capital to subsidiaries and affiliated companies. The future level of profits will be dependent on developments of the investments and financing activities.

The company does not foresee changes in the number of personnel in the future and does not perform any R&D activities.

The Hague, The Netherlands,

June 27, 2007

THE MANAGING DIRECTORS

Balance sheet
at December 31, 2006

(Before appropriation of net result)
(Amounts in thousands of U.S. Dollars)

	Notes	2006 USD	2005 USD
ASSETS			
Financial fixed assets			
Investments	3	651,084	501,121
Loans to shareholder	4	2,003,809	4,399,232
Loans to affiliated companies	4	2,936,850	574,708
Guarantees and deposits		<u>33</u>	<u>29</u>
		<u>5,591,776</u>	<u>5,475,090</u>
Deferred expenses	5	<u>12,002</u>	<u>14,669</u>
Current assets	6		
<i>Accounts receivable</i>			
Short-term loans to affiliated companies		1,285,746	1,506,048
Other receivable from subsidiaries		9,487	3,000
Interest receivable from loans to shareholder		68,616	91,510
Interest receivable from affiliated companies		78,718	20,883
Other receivables and prepayments		256	4,043
Taxes		<u>21,650</u>	<u>25,279</u>
		<u>1,464,473</u>	<u>1,650,763</u>
Short-Term Deposits		177,038	276,849
Cash and banks		<u>261</u>	<u>47</u>
		<u>177,299</u>	<u>276,896</u>
		<u>1,641,772</u>	<u>1,927,659</u>
		<u>7,245,550</u>	<u>7,417,418</u>

	Notes	2006 USD	2005 USD
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity	7		
Issued and paid-in capital		395,861	355,944
Additional paid-in capital		337,272	337,272
Other Reserves		(39,545)	372
Retained earnings		672,081	484,817
Net result for the year		<u>462,834</u>	<u>187,264</u>
		<u>1,828,503</u>	<u>1,365,669</u>
Deferred income	8	<u>4,393</u>	<u>5,204</u>
Euronotes	9	<u>4,181,475</u>	<u>3,759,835</u>
Long term debt	10	<u>297,550</u>	<u>-</u>
Short-term liabilities			
Medium Term Notes and Euronotes		-	1,065,780
Loans from affiliates	11	735,528	1,051,562
Interest payable on Medium Term Notes and Euronotes		104,897	98,816
Interest payable to affiliated companies		2,152	1,573
Other payable to affiliated companies and subsidiaries		89,574	67,892
Accrued liabilities and other payables		734	1,087
Other payable		<u>744</u>	<u>-</u>
		<u>933,629</u>	<u>2,286,710</u>
		<u>7,245,550</u>	<u>7,417,418</u>

Statement of income

for the year ended December 31, 2006

(Amounts in thousands of U.S. Dollars)

	Notes	2006 USD	2005 USD
Financial income and expense			
Income from investments	3	332,703	140,416
Change in carrying value investments	3	77,920	4,630
Interest income	13	379,585	415,060
Interest expense	13	(306,860)	(371,963)
Exchange gain		779	29,372
Other financial income (expenses)		<u>1,738</u>	<u>(135)</u>
		<u>485,865</u>	<u>211,380</u>
Amortization deferred expenses		<u>(2,667)</u>	<u>(1,590)</u>
General and administrative expenses	14	<u>(1,830)</u>	<u>(2,199)</u>
Income before provision for income taxes		<u>481,368</u>	<u>207,591</u>
Provision for income taxes	15	<u>(18,534)</u>	<u>(20,327)</u>
Net result		<u>462,834</u>	<u>187,264</u>

Notes to financial statements

at December 31, 2006

(Amounts in thousands of U.S. Dollars)

1 General

Repsol International Finance B.V. ("the company"), having its legal seat in The Hague, is a wholly owned subsidiary of Repsol YPF, S.A., located in Madrid, Spain. Companies in which Repsol YPF, S.A. participates are referred to as affiliated companies.

The company's principal activities consist of investing in and financing of subsidiaries and affiliated companies, and the company is the holder of shares in subsidiaries.

Based upon Article 2:408 of the Dutch Civil Code, no consolidated financial statements have been presented. The financial statements of the company and its subsidiaries are included in the consolidated financial statements of Repsol YPF, S.A.

A significant part of the company's transactions is denominated in U.S. Dollars. Consequently, the company's financial statements are reported in U.S. Dollars.

No cash flow statement has been included since a consolidated cash flow statement is included in the financial statements of Repsol YPF, S.A.

2 Accounting Principles

General

The accompanying accounts have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code.

The financial statements are prepared under the historical cost convention. Unless stated otherwise, assets and liabilities are stated at face value.

Income and expenses are accounted for on an accrual basis. Profit is only included when realized on balance sheet date. Losses and risks originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements.

Assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the year-end exchange rate unless indicated otherwise. Transactions in foreign currencies are translated at the exchange rate in effect at the time of the transaction. The exchange results are recorded under financial income and expense in the statement of income.

Translation results from investments in subsidiaries are recorded under the income from investments.

Financial fixed assets

Till 2005 the company accounted for its investments in subsidiaries and other investments at cost or lower underlying equity value in accordance with the financial statements of the investee, adjusted for the unamortized part of the acquisition price representing proven oil & gas reserves. Amortization was based on the depletion of these reserves and charged to the income from investments in the statement of income. The equity value was considered as a proxy for the recoverable value

In 2006 because a change in the Dutch generally accepted accounting principle company accounts for its investments in subsidiaries and other investments at cost or, if permanently impaired, at lower recoverable value. A reversal of the accumulated provision of USD 77,9 million has been credit to the statement of income, because of this change in accounting principles.

Deferred expenses

Deferred expenses relate to the Guaranteed Euronote issues raised between 1999 and 2006 mainly to finance the tender offer by the Repsol YPF Group of the Argentinean company YPF, S.A.

Aforementioned expenses are capitalised and amortized to the statement of income over the period of the duration of the note.

Deferred income

Deferred Income relates to either a hedging transaction entered into by the company in connection with the issuance of the medium-term notes or to commissions on a long-term credit facility provided to an Argentinean affiliate. In both cases such income is deferred and amortized to the statement of income over the period of the related transactions.

Financial Instruments

Off-balance sheet financial instruments are used to hedge exposures to movements in currency exchange rates. These financial instruments include currency forward contracts and swaps.

These financial instruments are stated at fair value.

The recognized results on these instruments are recorded as other financial income in the statement of income.

Recognition of Income

Revenues and expenses are recorded in the period in which they originate.

Taxation

The company belongs to a fiscal unity along with certain Dutch subsidiaries and affiliated companies. Taxes for the fiscal unity have been fully allocated to each subsidiary. The company is several and jointly liable for the total corporate income tax payable within the fiscal unity.

Notes to specific items of the balance sheet

3 Investments

At year-end the company has the following investments:

Name and Legal Seat	Percentage Ownership
Repsol (U.K.) Ltd., London	99.99%
Gaviota RE, Luxembourg	99.88%
Repsol Occidental Corp., Delaware	25.00%
Repsol LNG Port Spain B.V., The Hague	100.00%
Repsol Netherlands Finance B.V., The Hague	66.50%
Repsol Investeringen B.V., The Hague	100.00%
Repsol International Capital Ltd., Cayman Islands	100.00%
Repsol YPF Capital S.L., Madrid	99.99%
Repsol Canada LNG Ltd., Calgary	100.00%
Repsol Canada Ltd., Calgary	100.00%
Repsol Energy Canada, Calgary	100.00%

Key financial information of the Investments for the year ended December 31, 2006 is as follow

Subsidiary	Carrying Value USD	Acquisition Cost USD
Repsol (U.K.) Ltd.	1,552	20,846
Gaviota RE, S.A.	18,088	18,088
Repsol Occidental Corporation	99,606	171,995
Repsol International Capital Ltd.	-	900
Repsol Netherlands Finance B.V.	-	14
Repsol Investeringen B.V.	-	22
Repsol LNG Port Spain B.V.	27	27
Repsol YPF Capital, S.L.	473,407	473,407
Repsol Canada LNG Ltd.	56,526	56,526
Repsol Canada Ltd.	1,878	1,878
Repsol Energy Canada	-	-
Total	651,084	743,703

The movement in investments at carrying value is as follows:

	2006 USD	2005 USD
Balance January 1	501,121	496,491
Capital contributions	72,043	-
Changes in provisions	77,920	4,630
Balance December 31	<u>651,084</u>	<u>501,121</u>
Distributed dividend from investments	<u>332,703</u>	<u>140,416</u>

The main variations during the year ended December 31, 2006, are the following:

- In 2006 the company has received USD 176.3 million as dividend from LNG Port of Spain, USD 108.1 million from Repsol YPF Capital S.A. and USD 48.3 million from Repsol Occidental Corporation.
- The movement in provision on investments is as follows:

	USD
Gaviota RE, S.A.	(535)
Repsol Occidental Corporation	(77,385)

- Capital contributions were made as follows:

	Capital contributions in 2006
	USD
Gaviota RE, S.A.	13,639
Repsol Canada LNG Ltd.	56,526
Repsol Canada Ltd.	1,878
	<u>72,043</u>

4 Long-term loans to Shareholder and Affiliated Companies

The loans to the shareholder are granted within a long-term credit facility (10,500 million U.S. Dollars), which expires on October 2014. The loans bear an average interest rate of 6.0% per annum.

Long-term loans to affiliated companies expire over one year. The loans bear an average interest rate of 6.9% per annum.

5 Deferred Expenses

The movement of deferred expenses is as follows:

	USD
Book value January 1, 2006	14,669
Amortization	<u>(2,667)</u>
Book value December 31, 2006	<u>12,002</u>

The part of amortization of deferred expenses related to the difference between face value and issue price for each Euronote issue, is recorded under caption "Amortization deferred expenses".

6 Accounts Receivable

9 Repsol International Finance B.V.

Accounts receivable as presented under current assets mature within one year.

7 Shareholders' Equity

	Issued and Paid in Capital USD	Additional Paid in Capital USD	Other Reserves USD	Retained earnings USD	Net Result for the year USD	Total USD
Balance January 1, 2006	355,944	337,272	372	484,817	187,264	1,365,669
Appropriation of result	-	-	-	187,264	(187,264)	-
Currency translation- adjustment	39,917	-	(39,917)	-	-	-
Net result 2006	-	-	-	-	462,834	462,834
Balance December 31, 2006	395,861	337,272	(39,545)	672,081	462,834	1,828,503

The issued and paid-in capital consists of 300,577 shares with a par value of 1,000 Euros, translated to U.S. Dollars at an exchange rate of EUR 0.7593 per U.S. dollar as at December 31, 2006.

8 Deferred Income

The movement of deferred income is as follows:

	USD
Book value January 1, 2006	5,204
Amortization	(811)
Book value December 31, 2006	4,393

9 Euronotes

The company raised funds in the euromarket to partly finance the tender offer by Repsol YPF relating to the Argentinean company YPF. The different issues of guaranteed notes are summarized as follows:

Maturity	Nominal in €	Amount in \$	Coupon	Yield
Long term				
May 5, 2010	1,175 million	1,547,475	Annual	6 %
July 22, 2013	1,000 million	1,317,000	Annual	5 %
October 8, 2014	<u>1,000 million</u>	<u>1,317,000</u>	Annual	4.625 %
TOTAL	3,175 million	4,181,475		

10 Long term debt

Since July 2006 a credit facility from Citibank was granted for an amount of USD 100 million which will mature on 2008, and bearing an interest rate equal to the LIBOR rate plus a margin of 0.25% per annum. In September a bank loan agreement from Societe Generale was granted for EUR 150 million, with termination date 2009, and bearing an interest rate equal to Euribor 3 months plus a margin of 0.20% per annum.

11 Short term loans from affiliates

Liabilities with a remaining period up to 1 year, including the short-term portion of long-term liabilities, are presented under short-term liabilities.

The short-term liabilities comprise credit facilities denominated mostly in U.S. Dollar, received from affiliated companies for an amount of USD 735,528 at an average interest rate of 5.35%.

12 Covenants in RIF B.V.'s Indebtedness

The bank loans generally contain customary covenants for contracts of this nature, including negative pledge, material adverse change and cross-default clauses.

The issues of unsecured and unsubordinated Euronotes representing EUR 3,175 million guaranteed by Repsol YPF, S.A., contain clauses whereby the company undertakes to pay interest when due and the liabilities at maturity and the guarantor, subject to certain exceptions, undertakes not to create encumbrances on its assets in relation to these issues or to future issues of debt securities.

In the event of a default under any series of the bonds, the trustee, at his sole discretion or at the request of the holders of at least one-fifth or one quarter of the bonds, depending upon the series, can declare the bonds of that series to be due and payable.

Almost all of our total outstanding debt is subject to cross-default provisions. These provisions may be triggered if an event of default occurs with respect to indebtedness equal to or exceeding USD 20 million or 0.25% of Repsol YPF's shareholders' equity.

As a result of these cross-default provisions, a default on the part of Repsol YPF, YPF or any subsidiary covered by such provisions could result in a substantial portion of our debt being declared in default or accelerated. Repsol YPF believes that none of its debt or that of any of its subsidiaries is currently in default.

The company's directors believe that at the date of this writing there are no reasons, nor will there foreseeably be in the future, which will make it necessary to apply the clauses providing for early maturity of the debt.

13 Interest Income and Expense

An amount of USD 371,185 (2005: USD 409,592) relates to interest income from affiliated companies. An amount of USD 8,400 (2005: USD 5,468) relates to third parties.

An amount of USD 40,114 (2005: USD 42,627) relates to interest expense to affiliated companies. An amount of USD 261,741 (2005: USD 329,336) relates to debentures and bonds. An amount of USD 5,005 relates to third parties.

14 General and administrative expenses

Under general and administrative expenses, an amount of USD 466 has been recorded for salary costs, an amount of USD 21 has been recorded for social security charges and an amount of USD 2 has been recorded for pension costs.

15 Income Taxes

The effective tax amounts to 3.80% which differs from the applicable corporate income tax rate of 29.6% in The Netherlands as a result of the application of the substantial holding exemption.

The company, Repsol Netherlands Finance B.V., Repsol LNG Port of Spain B.V. and Repsol Investeringen B.V. constitute a fiscal unity. Taxes for the fiscal unity have been fully allocated to each subsidiary. The company is severally and jointly liable for the total corporate income tax payable of the fiscal unity.

16 Financial Instruments

In the normal course of business the company uses forward exchange contracts, to hedge currency exchange rate risks resulting from financing arrangements in foreign currencies. Financial instruments include those recognized in the balance sheet (on-balance sheet) and off-balance sheet financial instruments.

The estimated fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from listed market prices, price quotations from banks or pricing models.

The company has procedures and policies in place to control risks related to financial instruments. These policies and procedures include a clear segregation of duties between operating, settlement, accounting and controlling of all financial instruments used. The company's management is involved in the risk management process.

The company attempts to minimize the counterparty credit risk associated with the financial instruments used by selecting counterparties that it assumes to be creditworthy, given their high credit ratings.

The table below summarises by major currency the contractual amounts of the company's foreign exchange contracts in U.S. Dollars as of December 31, 2006. Foreign currency amounts are translated at rates prevailing at the balance sheet date. The "buy" amounts represent the USD equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the USD equivalent of commitments to sell foreign currencies. These commitments expired in February 2007.

(thousands)	Buy USD	Sell USD
U.S. Dollar	-	1,306,698
Euro	1,302,130	-
Sterling Pound	1,838	-

The fair value of these swaps amount to USD 256 thousand.

17 Personnel

As of December 31, 2006, the company has four employees.

18 Statutory and Supervisory Directors

Based on Article 383.1 of Book 2, Title 9 of the Dutch Civil Code the remuneration of the sole remunerated statutory director is not disclosed. The company does not have supervisory directors.

The Hague, The Netherlands,

June 27, 2007

STATUTORY DIRECTORS:

G. A. L. R. Diepenhorst

F. J. Sanz Cedrón

L. López-Tello Díaz-Aguado

L. J. Pieltain Álvarez-Arenas

Additional information

1 Auditors' report

Reference is made to the auditors' report included hereafter.

2 Appropriation of Net Result

The Articles of Incorporation provide that the appropriation of income for the year is decided upon at the Annual General Meeting of Shareholders. Awaiting the decision by the shareholder, the net result for the year is separately included in the shareholder equity as net result for the year.

To the shareholders of
Repsol International Finance B.V.

Date
June 27, 2007

From
J. Penon

Reference
OMLA3100013101\op9996\mk

Auditors' report

Report on the company financial statements

We have audited the financial statements of Repsol International Finance B.V., The Hague, The Netherlands, which comprise the balance sheet as at December 31, 2006, the income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the company financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error.

Deloitte.

2

June 27, 2007

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.


Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Repsol International Finance B.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.


J. Penon