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**Repsol International Finance B.V.**

Annual report 2005  
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, 2005

### 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 share capital of the company amounts to USD 355,944. 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. Also, as part of the required financing, in the year 2000 the company issued notes amounting to EUR 3,350 million (EUR 1,500 million of which matured in the year 2002 and EUR 850 million of which matured in the year 2003) and U.S. Dollars 1,250 million. In year 2001 the company issued notes amounting to EUR 2,150 million, EUR 900 million of which matured in the year 2003 and EUR 325 million of which matured in the year 2004. During 2003 the company issued notes amounting to EUR 1,150 million. In the year 2004 the company issued notes amounting EUR 1,000 million which mature in the year 2014.

The company is the holder of shares in subsidiaries. These investments have been valued at cost or lower underlying equity value, on the basis of the financial statements of 2005 of the subsidiary.

### Result for the Year

The company made profit of USD 187,264 compared to also profit of USD 123,867 in 2004. This profit is primarily caused by a positive result from interest income.

### 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 Hague, The Netherlands,

April 10, 2006

THE MANAGING DIRECTORS

## Balance sheet

at December 31, 2005

(Before appropriation of net result)

(Amounts in thousands of U.S. Dollars)

	Notes	2005 USD	2004 USD
<b>ASSETS</b>			
<b>Financial fixed assets</b>			
Investments	3	501,121	496,491
Loans to shareholder	4	4,399,232	5,060,939
Loans to affiliated companies	4	574,708	642,714
Guarantees and deposits		29	30
		<u>5,475,090</u>	<u>6,200,174</u>
Deferred expenses	5	<u>14,669</u>	<u>18,304</u>
<b>Current assets</b>			
<i>Accounts receivable</i>			
Short-term loans to affiliated companies		1,506,048	3,479,200
Other receivable from affiliated companies		3,000	5,308
Interest receivable from loans to shareholder		91,510	167,442
Interest receivable from affiliated companies		20,883	12,937
Other receivables and prepayments		4,043	11
Taxes		25,279	17,511
		<u>1,650,763</u>	<u>3,682,409</u>
Short-Term Deposits		276,849	155,276
Cash and banks		<u>47</u>	<u>66</u>
		<u>276,896</u>	<u>155,342</u>
		<u>1,927,659</u>	<u>3,837,751</u>
		<u>7,417,418</u>	<u>10,056,229</u>

	Notes	2005 USD	2004 USD
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>			
<b>Shareholder's equity</b>	7		
Issued and paid-in capital		355,944	406,921
Additional paid-in capital		337,272	337,272
Other Reserves		372	(50,605)
Retained earnings		484,817	360,950
Net income for the year		<u>187,264</u>	<u>123,867</u>
		<u>1,365,669</u>	<u>1,178,405</u>
<b>Deferred income</b>	8	<u>5,204</u>	<u>6,139</u>
<b>Euronotes</b>	9	<u>3,759,835</u>	<u>5,516,735</u>
<b>Short-term liabilities</b>			
Medium Term Notes and Euronotes	9	1,065,780	1,550,000
Loans from affiliates		1,051,562	1,583,285
Interest payable on Medium Term Notes and Euronotes		98,816	169,714
Interest payable to affiliated companies		1,573	5,857
Other payable to affiliated companies		67,892	40,384
Accrued liabilities and other payables		<u>1,087</u>	<u>5,710</u>
		<u>2,286,710</u>	<u>3,354,950</u>
		<u>7,417,418</u>	<u>10,056,229</u>

## Statement of income

for the year ended December 31, 2005

(Amounts in thousands of U.S. Dollars)

	Notes	2005 USD	2004 USD
<b>Financial income and expense</b>			
Income from investments	3	140,416	90,010
Change in carrying value investments	3	4,630	1,463
Interest income	11	415,060	428,486
Interest expense	11	(371,963)	(377,033)
Exchange gain (loss)		23,372	2,367
Other financial expenses		<u>(135)</u>	<u>(263)</u>
		<u>211,380</u>	<u>145,030</u>
<b>Amortization deferred expenses</b>		<u>(1,590)</u>	<u>(1,549)</u>
<b>General and administrative expenses</b>	12	<u>(2,199)</u>	<u>(3,744)</u>
<b>Income before provision for Income taxes</b>		<u>207,591</u>	<u>139,737</u>
<b>Provision for income taxes</b>	13	<u>(20,327)</u>	<u>(15,870)</u>
<b>Net result</b>		<u>187,264</u>	<u>123,867</u>

## Notes to financial statements

at December 31, 2005

(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

The investments in subsidiaries and other investments are stated 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 is based on the depletion of these reserves and is charged to the Income from Investments in the statement of Income. The underlying equity value is determined on the basis of the accounting principles as applied by the company.

The financial statements have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code.

#### **Deferred expenses**

Deferred expenses relate to the Guaranteed Euronote issues raised during 1999, 2000, 2001, 2003, 2004 and 2005 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.



## 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., Rotterdam	100.00%
Repsol Netherlands Finance B.V., Rotterdam	66.50%
Repsol Investeringen B.V., Rotterdam	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, 2005 is as follows:

Subsidiary	Carrying Value USD	Acquisition Cost USD
Repsol (U.K.) Ltd.	1,551	20,846
Gaviota RE, S.A.	3,915	4,449
Repsol Occidental Corporation	22,221	171,995
Repsol International Capital Ltd.	0	900
Repsol Netherlands Finance B.V.	0	14
Repsol Investeringen B.V.	0	22
Repsol LNG Port Spain B.V.	27	27
Repsol YPF Capital, S.L.	473,407	473,407
Repsol Canada LNG Ltd.	0	0
Repsol Canada Ltd.	0	0
Repsol Energy Canada	0	0
<b>Total</b>	<b>501,121</b>	<b>671,660</b>

Key information of investments with a negative equity as at December 31, 2005 is as follows:

	Equity USD	Result USD
Repsol International Capital Ltd.	(424,303)	(15,013)
Repsol Investeringen B.V.	(7)	(3)
Repsol Netherlands Finance B.V.	(13,085)	(35,276)

8 Repsol International Finance B.V.

The movement in investments at carrying value is as follows:

	2005 USD	2004 USD
Balance January 1, 2005	496,491	495,021
Purchase of assets	0	7
Changes in equity value of investments valued below cost	<u>4,630</u>	<u>1,463</u>
Balance December 31, 2005	<u>501,121</u>	<u>496,491</u>
Distributed dividend from investments	<u>140,416</u>	<u>90,010</u>

The main variations during the year ended December 31, 2005, are the following:

- In 2005 the company has received USD 27.6 million as dividend from Repsol Occidental Corporation and USD 112.8 millions from Repsol YPF Capital S.A..
- The movement in provision on Investments is as follows:

	Income in 2005  USD
Gaviota RE, S.A.	535
Repsol Occidental Corporation	(5,269)
Repsol (U.K.) Ltd.	90
Repsol Netherlands Finance B.V.	<u>14</u>
	<u>(4,630)</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 June 2007.

Long-term loans to affiliated companies expire on June 2007 or later.

## 5 Deferred Expenses

The movement of deferred expenses is as follows:

	USD
Book value January 1, 2005	18,304
Capitalization	-
Amortization	<u>(3,635)</u>
Book value December 31, 2005	<u>14,669</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" (2005 - USD 1,590).

## 6 Accounts Receivable

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, 2004	378,637	337,272	(22,321)	332,486	28,464	1,054,538
Appropriation of result				28,464	(28,464)	
Currency translation- adjustment	28,284		(28,284)			
Net Income 2004					<u>123,867</u>	<u>123,867</u>
Balance December 31, 2004	<u>406,921</u>	<u>337,272</u>	<u>(50,605)</u>	<u>360,950</u>	<u>123,867</u>	<u>1,178,405</u>

	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, 2005	406,921	337,272	(50,605)	360,950	123,867	1,178,405
Appropriation of result				123,867	(123,867)	
Currency translation- adjustment	(50,977)		50,977			
Net income 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,264</u>	<u>187,264</u>
Balance December 31, 2005	355,944	337,272	372	484,817	187,264	1,365,669

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 0.84445 per U.S. dollar as at December 31, 2005.

## 8 Deferred Income

The movement of deferred income is as follows:

	USD
Book value January 1	6,139
Increase	0
Amortization	<u>(935)</u>
Book value December 31	<u>5,204</u>

## 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
<b>Short term</b>				
May 28, 2006	150 million	177,630	Annual	Floating rate
December 4, 2006	<u>750 million</u>	<u>888,150</u>	Annual	5 %
TOTAL	900 million	1,065,780		
<b>Long term</b>				
May 5, 2010	1,175 million	1,391,435	Annual	6 %
July 22, 2013	1,000 million	1,184,200	Annual	5 %
October 8, 2014	<u>1,000 million</u>	<u>1,184,200</u>	Annual	4,625 %
TOTAL	3,175 million	3,759,835		

## **10 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.

The Medium Term Notes issued representing USD 1,066 million, guaranteed by Repsol YPF, S.A., contain clauses whereby the guarantor undertakes, subject to certain exceptions, not to create liens or security interests on certain of its assets in relation to any indebtedness.

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.

## **11 Interest Income and Expense**

An amount of USD 409,592 (2004: USD 426,488) relates to interest income from subsidiaries and affiliated companies. An amount of USD 5,468 (2004: USD 1,998) relates to third parties.

An amount of USD 42,627 (2004: USD 27,643) relates to interest expense to subsidiaries and affiliated companies. An amount of USD 329,336 (2004: USD 349,399) relates to debentures and bonds.

## **12 General and administrative expenses**

Under general and administrative expenses, an amount of USD 333 has been recorded for salary costs, an amount of USD 16 has been recorded for social security charges and an amount of USD 6 has been recorded for pension costs.

### 13 Income Taxes

The effective tax amounts to 9,79% which differs from the applicable corporate income tax rate of 31,5% 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.

### 14 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, 2005. 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 January 2006.

(thousands)	Buy USD	Sell USD
U.S. Dollar	1,057,077	-
Euro	-	1,054,238
Sterling Pound	-	1,539

### 15 Personnel

As of December 31, 2005, the company has four employees.

## **16 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,

April 10, 2006

### **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.



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To the shareholder of  
Repsol International Finance B.V.

Date  
April 10, 2006

From  
J. Penon

Reference  
OML3100031101\op9987

## **Auditors' report**

### **Introduction**

We have audited the financial statements of Repsol International Finance B.V., The Hague, The Netherlands, for the year ended December 31, 2005 as set out on pages 3 to 14. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Scope**

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the company financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have established to the extent of our competence that the management report is consistent with the financial statements.

Deloitte Accountants B.V.