

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the third quarter and the nine-month period ended  
September 30, 2016

REPSOL, S.A. and investees comprising the REPSOL Group



*Translation of a report originally issued in Spanish  
In the event of a discrepancy, the Spanish language version prevails*

**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated balance sheet at September 30, 2016 and December 31, 2015**

	Note	Millions of euros	
	2.3	09/30/2016	12/31/2015
<b>ASSETS</b>			
Intangible Assets:		5,046	4,790
a) Goodwill	5.1	3,010	3,099
b) Other intangible assets		2,036	1,691
Property, plant and equipment	5.1	26,763	28,202
Investment property		27	26
Investment accounted for using the equity method	5.2	10,207	11,798
Non-current financial assets	5.4	754	715
Deferred tax assets		4,693	4,743
Other non-current assets		300	179
<b>NON-CURRENT ASSETS</b>		<b>47,790</b>	<b>50,453</b>
Non current assets held for sale	5.3	418	262
Inventories		3,397	2,853
Trade and other receivables:		4,862	5,680
a) Trade receivables		2,740	2,607
b) Other receivables		1,413	2,060
c) Income tax assets		709	1,013
Other current assets		334	271
Other current financial assets	5.4	1,287	1,237
Cash and cash equivalents	5.4	3,387	2,448
<b>CURRENT ASSETS</b>		<b>13,685</b>	<b>12,751</b>
<b>TOTAL ASSETS</b>		<b>61,475</b>	<b>63,204</b>

Notes 1 to 7 are an integral part of this consolidated balance sheet at September 30, 2016.

**Repsol, S.A. and investees comprising the Repsol Group  
Consolidated balance sheet at September 30, 2016 and December 31, 2015**

	Note	Millions of euros	
	2.3	09/30/2016	12/31/2015
<b>LIABILITIES AND EQUITY</b>			
<b>NET EQUITY</b>			
Issued share capital		1,466	1,442
Share premium		6,428	6,428
Reserves		259	259
Treasury shares and own equity instruments		(334)	(248)
Retained earnings and other reserves		17,735	19,571
Profit attributable to equity holders of the parent		1,120	(1,392)
Dividends and remunerations	5.6	-	(228)
Other equity instruments		991	1,017
<b>EQUITY</b>		<b>27,665</b>	<b>26,849</b>
<b>Items reclassified to the income statement:</b>		<b>1,285</b>	<b>1,691</b>
Financial assets available for sale		5	3
Hedge transactions		(215)	(227)
Translation differences		1,495	1,915
<b>OTHER ACCUMULATED COMPREHENSIVE INCOME</b>		<b>1,285</b>	<b>1,691</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT AND OTHER HOLDERS OF EQUITY INSTRUMENTS</b>		<b>28,950</b>	<b>28,540</b>
<b>MINORITY INTERESTS</b>		<b>232</b>	<b>228</b>
<b>TOTAL EQUITY</b>	<b>5.6</b>	<b>29,182</b>	<b>28,768</b>
Grants		6	7
Non-current provisions	5.7	6,076	5,827
Non-current financial liabilities:	5.4	9,571	10,581
a) Bank borrowings, bonds and other securities		9,460	10,491
b) Other financial liabilities		111	90
Deferred tax liabilities		1,482	1,602
Other non-current liabilities		1,913	1,942
<b>NON-CURRENT LIABILITIES</b>		<b>19,048</b>	<b>19,959</b>
Liabilities related to non-current assets held for sale	5.3	160	8
Current provisions	5.7	1,024	1,377
Current financial liabilities:	5.4	6,751	7,073
a) Bank borrowings, bonds and other securities		6,704	7,004
b) Other financial liabilities		47	69
Trade payables and other payables:		5,310	6,019
a) Trade payables		1,668	1,799
b) Other payables		3,440	3,975
c) Current income tax liabilities		202	245
<b>CURRENT LIABILITIES</b>		<b>13,245</b>	<b>14,477</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>61,475</b>	<b>63,204</b>

Notes 1 to 7 are an integral part of this consolidated balance sheet at September 30, 2016.

*Translation of a report originally issued in Spanish  
In the event of a discrepancy, the Spanish language version prevails*

**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated income statement for the third quarter of 2016 and 2015 and nine-month periods ended September 30, 2016 and 2015**

	Note	Millions of euros			
		Q3 2016	Q3 2015	M9 2016	M9 2015
Sales		8,881	10,166	24,576	30,209
Services rendered and other income		40	44	104	120
Changes in inventories of finished goods and work in progress inventories		149	(10)	472	49
Income from reversals of provisions and gains on disposal of non-current assets	3	507	375	864	602
Other operating income	5.8	251	567	703	1,261
<b>OPERATING REVENUE</b>		<b>9,828</b>	<b>11,142</b>	<b>26,719</b>	<b>32,241</b>
Supplies		(6,454)	(7,661)	(17,220)	(22,427)
Personnel expenses	5.8	(519)	(556)	(1,987)	(1,580)
Other operating expenses		(1,431)	(1,587)	(4,199)	(4,716)
Depreciation and amortization of non-current assets		(598)	(833)	(1,756)	(2,193)
Provisions recognised and losses on disposal of non-current assets		(86)	(690)	(139)	(827)
<b>OPERATING EXPENSES</b>		<b>(9,088)</b>	<b>(11,327)</b>	<b>(25,301)</b>	<b>(31,743)</b>
<b>OPERATING INCOME</b>		<b>740</b>	<b>(185)</b>	<b>1,418</b>	<b>498</b>
Finance income		41	23	134	88
Finance expenses		(169)	(230)	(534)	(562)
Changes in the fair value of financial instruments		8	12	(27)	992
Net exchange gains/ (losses)		28	(4)	90	(269)
Impairment and gains/ (losses) on disposal of financial instruments	5.4	-	-	49	(7)
<b>FINANCIAL RESULT</b>		<b>(92)</b>	<b>(199)</b>	<b>(288)</b>	<b>242</b>
Share of results of companies accounted for using the equity method after taxes	5.2	40	(23)	252	235
<b>NET INCOME BEFORE TAX</b>		<b>688</b>	<b>(407)</b>	<b>1,382</b>	<b>975</b>
Income tax	5.9	(198)	195	(232)	(104)
<b>NET INCOME FOR THE PERIOD</b>		<b>490</b>	<b>(212)</b>	<b>1,150</b>	<b>871</b>
Net income attributable to minority interests		(9)	(9)	(30)	(39)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT</b>		<b>481</b>	<b>(221)</b>	<b>1,120</b>	<b>832</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>					
	5.6.3	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>
Basic		0.33	(0.16)	0.76	0.56
Diluted		0.33	(0.16)	0.76	0.56

Notes 1 to 7 are an integral part of this consolidated income statement at September 30, 2016.

**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated statement recognized income and expense for the third quarter of 2016 and 2015 and nine-month periods**  
**ended September 30, 2016 and 2015**

	Millions of euros			
	Q3 2016	Q3 2015	M9 2016	M9 2015
<b>CONSOLIDATED NET INCOME FOR THE PERIOD</b> <b>(from the Consolidated Income Statement)</b>	<b>490</b>	<b>(212)</b>	<b>1,150</b>	<b>871</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Total items not reclassified to the income statement:</b>				
From actuarial gains and losses	-	(9)	-	(4)
Share of other comprehensive income recognized by investees accounted for as interest in joint ventures and associates	2	-	(1)	-
Tax effect	-	-	(5)	-
<b>TOTAL</b>	<b>2</b>	<b>(9)</b>	<b>(6)</b>	<b>(4)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Total items reclassified to the income statement:</b>				
<b>Financial assets available for sale</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>12</b>
Valuation gains/(losses)	2	-	2	6
Amounts transferred to profit or loss	-	-	-	6
<b>Cash-flow hedges</b>	<b>6</b>	<b>(6)</b>	<b>(9)</b>	<b>(49)</b>
Valuation gains/(losses)	-	(15)	(41)	(570)
Amounts transferred to profit or loss	6	9	32	(4)
Amounts transferred to the initial measurement of hedged items	-	-	-	525
<b>Translation differences</b>	<b>(89)</b>	<b>(1)</b>	<b>(450)</b>	<b>1,171</b>
Valuation gains/(losses)	(88)	4	(434)	1,169
Amounts transferred to profit or loss	(1)	(5)	(16)	2
<b>Share of other comprehensive income recognized by investees accounted for as interest in joint ventures and associates</b>	<b>17</b>	<b>(144)</b>	<b>74</b>	<b>(105)</b>
Valuation gains/(losses)	(26)	(146)	24	(104)
Amounts transferred to profit or loss	43	2	50	(1)
<b>Tax effect</b>	<b>3</b>	<b>1</b>	<b>(25)</b>	<b>15</b>
<b>TOTAL</b>	<b>(61)</b>	<b>(150)</b>	<b>(408)</b>	<b>1,044</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>431</b>	<b>(371)</b>	<b>736</b>	<b>1,911</b>
a) Attributable to the parent company	423	(378)	708	1,865
b) Attributable to minority interests	8	7	28	46

Notes 1 to 7 are an integral part of this consolidated statement of recognized income and expenses at September 30, 2016.

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**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated statement of changes in equity for the periods ended September 30, 2016 and 2015**

Millions of euros	Equity attributable to equity holders of the parent								
	Capital and reserves					Other accumulated comprehensive income	Total equity attributable to the parent and to other holders of equity instruments	Minority interests	Total Equity
	Issued share capital	Share premium and reserves	Treasury shares and own equity instruments	Total net income attributable to the parent	Other equity instruments				
<b>Closing balance at 12/31/2014</b>	<b>1,375</b>	<b>24,642</b>	<b>(127)</b>	<b>1,612</b>	-	<b>435</b>	<b>27,937</b>	<b>217</b>	<b>28,154</b>
Adjustments (Note 2.3)	-	225	-	-	-	5	230	-	230
<b>Initial adjusted balance</b>	<b>1,375</b>	<b>24,867</b>	<b>(127)</b>	<b>1,612</b>	-	<b>440</b>	<b>28,167</b>	<b>217</b>	<b>28,384</b>
<b>Total recognized income/ (expense)</b>	-	<b>11</b>	-	<b>(1,392)</b>	-	<b>1,259</b>	<b>(122)</b>	<b>56</b>	<b>(66)</b>
<b>Transactions with shareholders or owners</b>									
Increase/ (decrease) of share capital	67	(67)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	-	-
Transactions with treasury shares or own equity instruments (net)	-	3	(121)	-	-	-	(118)	-	(118)
Increases / (decrease) due to changes in the scope of consolidation	-	49	-	-	-	18	67	(45)	22
Other transactions with partners and owners	-	(471)	-	-	-	-	(471)	-	(471)
<b>Other changes in equity</b>									
Transfers between equity accounts	-	1,612	-	(1,612)	-	-	-	-	-
Perpetual subordinated obligations	-	(22)	-	-	1,017	-	995	-	995
Other changes	-	48	-	-	-	(26)	22	-	22
<b>Closing balance at 12/31/2015</b>	<b>1,442</b>	<b>26,030</b>	<b>(248)</b>	<b>(1,392)</b>	<b>1,017</b>	<b>1,691</b>	<b>28,540</b>	<b>228</b>	<b>28,768</b>
<b>Total recognized income/ (expense)</b>	-	<b>(6)</b>		<b>1,120</b>		<b>(406)</b>	<b>708</b>	<b>28</b>	<b>736</b>
<b>Transactions with shareholders or owners</b>									
Increase / (decrease) of share capital	24	(24)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	(4)	(4)
Transactions with treasury shares or own equity instruments (net)	-	(33)	(86)	-	-	-	(119)	-	(119)
Increases / (decrease) due to changes in the scope of consolidation	-	-	-	-	-	-	-	(21)	(21)
Other transactions with partners and owners	-	(144)	-	-	-	-	(144)	-	(144)
<b>Other changes in equity</b>									
Transfers between equity accounts	-	(1,392)	-	1,392	-	-	-	-	-
Perpetual subordinated obligations	-	(21)	-	-	(26)	-	(47)	-	(47)
Other changes	-	12	-	-	-	-	12	1	13
<b>Closing balance at 09/30/2016</b>	<b>1,466</b>	<b>24,422</b>	<b>(334)</b>	<b>1,120</b>	<b>991</b>	<b>1,285</b>	<b>28,950</b>	<b>232</b>	<b>29,182</b>

Notes 1 a 7 are an integral part of this consolidated statement of changes in equity at September 30, 2016.

**Repsol, S.A. and investees comprising the Repsol Group**  
**Consolidated statement of cash flows for the third quarter of 2016 and 2015 and the nine-month periods ended**  
**September 30, 2016 and 2015**

	Millions of euros			
	Q3 2016	Q3 2015	M9 2016	M9 2015
<b>Net income before tax</b>	<b>688</b>	<b>(407)</b>	<b>1,382</b>	<b>975</b>
<b>Adjustments to net income:</b>	<b>319</b>	<b>1,284</b>	<b>1,621</b>	<b>1,891</b>
Depreciation and amortization of non-current assets	600	833	1,758	2,193
Other adjustments to results (net)	(281)	451	(137)	(302)
<b>Changes in working capital</b>	<b>(236)</b>	<b>535</b>	<b>(756)</b>	<b>85</b>
<b>Other cash flows from operating activities:</b>	<b>(130)</b>	<b>19</b>	<b>(5)</b>	<b>(222)</b>
Dividends received	79	274	385	407
Income tax received / (paid)	(67)	(154)	69	(296)
Other proceeds from / ( payments for) operating activities	(142)	(101)	(459)	(333)
<b>Cash flows from operating activities</b>	<b>641</b>	<b>1,431</b>	<b>2,242</b>	<b>2,729</b>
<b>Payments for investing activities:</b>	<b>(568)</b>	<b>(1,044)</b>	<b>(2,150)</b>	<b>(10,920)</b>
Group companies and associates	(157)	(241)	(629)	(8,648)
Property, plant and equipment, intangible assets and investment properties	(378)	(695)	(1,379)	(2,026)
Other financial assets	(33)	(108)	(142)	(246)
<b>Proceeds from divestments:</b>	<b>2,154</b>	<b>254</b>	<b>2,995</b>	<b>1,585</b>
Group companies and associates	1,959	134	2,624	389
Property, plant and equipment, intangible assets and investment properties	137	120	304	134
Other financial assets	58	-	67	1,062
<b>Other cash flows</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>494</b>
<b>Cash flows used in investing activities</b>	<b>1,586</b>	<b>(790)</b>	<b>844</b>	<b>(8,841)</b>
<b>Proceeds from/ (payments for) equity instruments:</b>	<b>(65)</b>	<b>(164)</b>	<b>(114)</b>	<b>860</b>
Issues	-	-	-	995
Acquisition	(44)	(164)	(97)	(318)
Disposal	(21)	-	(17)	183
<b>Proceeds from / (payments for) financial liabilities:</b>	<b>(775)</b>	<b>(32)</b>	<b>(1,049)</b>	<b>2,544</b>
Issues	2,995	2,349	10,115	8,970
Return and depreciation	(3,770)	(2,381)	(11,164)	(6,426)
<b>Payments for dividends and payments on other equity instruments:</b>	<b>(144)</b>	<b>(243)</b>	<b>(415)</b>	<b>(488)</b>
<b>Other cash flows from financing activities:</b>	<b>(77)</b>	<b>(270)</b>	<b>(559)</b>	<b>519</b>
Interest payments	(67)	(103)	(463)	(498)
Other proceeds from/ (payments for) financing activities	(10)	(167)	(96)	1,017
<b>Cash flows used in financing activities</b>	<b>(1,061)</b>	<b>(709)</b>	<b>(2,137)</b>	<b>3,435</b>
<b>Effect of changes in exchange rates</b>	<b>(4)</b>	<b>(5)</b>	<b>(10)</b>	<b>58</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,162</b>	<b>(73)</b>	<b>939</b>	<b>(2,619)</b>
Cash and cash equivalents at the beginning of the period	2,225	2,092	2,448	4,638
Cash and cash equivalents at the end of the period	3,387	2,019	3,387	2,019
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>30/09/2016</b>	<b>30/09/2015</b>
Cash and banks	2,260	1,608	2,260	1,608
Other financial assets	1,127	411	1,127	411
<b>TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3,387</b>	<b>2,019</b>	<b>3,387</b>	<b>2,019</b>

Notes 1 to 7 are an integral part of this consolidated cash flows statement at September 30, 2016.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE REPSOL GROUP

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## **(1) GENERAL INFORMATION**

### **1.1 About the Repsol Group**

Repsol constitutes an integrated group of oil and gas (hereinafter “Repsol”, “Repsol Group” or “Group”) which commenced its operations in 1987.

The Repsol Group is engaged in all the activities relating to the oil and gas industry, including exploration, development and production of crude oil and natural gas, transportation of oil products, liquefied petroleum gas (LPG) and natural gas, refining, the production of a wide range of oil products and the retailing of oil products, oil derivatives, petrochemicals products, LPG, natural gas and liquefied natural gas (LNG).

The Repsol Group prepares its consolidated financial statements including the investments in all of its subsidiaries, associates and joint arrangements. Appendix I of the consolidated financial statements for the financial year 2015 details the main companies comprising the Repsol Group, which were included in the consolidation scope at said date. Appendix I of these interim condensed consolidated financial statements details the main changes in the Group’s composition taken place during the first nine months of 2016.

The activities of Repsol S.A. and its investees are subject to a broad range of regulations. Appendix II outlines the main developments affecting the Regulatory Framework during the reporting period.

### **1.2 About the interim condensed consolidated financial statements**

The accompanying interim condensed consolidated financial statements of Repsol, S.A. and its investees, comprising the Repsol Group entities, present fairly the Group’s equity and financial position at September 30, 2016, as well as the Group’s earnings performance, the changes in the consolidated equity and the consolidated cash flows for the nine-month interim period then ended.

These interim condensed consolidated financial statements have been approved by the Board of Directors of Repsol S.A. at a meeting held on November 2, 2016.

## **(2) BASIS OF PRESENTATION**

### **2.1 General principles**

The accompanying interim financial statements are expressed in millions of euros (except where otherwise indicated) and have been prepared based on the accounting records of the Group entities in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) at September 30, 2016, specifically in accordance with the requirements established in International Accounting Standard (IAS) 34 “*Interim Financial Reporting*”.

In accordance with IAS 34, these interim condensed consolidated financial statements are only intended to provide an update on the latest approved annual financial statements, focusing on new activities, events, and circumstances occurring during the first nine months of the year; they do not, accordingly, duplicate information already disclosed in the prior-year annual consolidated financial statements. Given that they do not include information required for the preparation of a complete set of financial statements in accordance with IFRS-EU, and for an appropriate understanding of the information provided in these interim condensed consolidated financial statements, they should be read in conjunction with the Repsol Group’s consolidated financial statements for the year ended December 31, 2015, which were ratified at Repsol, S.A.’s Annual General Meeting on May 20, 2016.

## 2.2 Applicable standards to the financial information

The newly issued accounting standard applicable to the Group from January 1, 2016<sup>1</sup>, has not had a significant impact on the accompanying interim condensed consolidated financial statements.

## 2.3 Accounting policies and comparative information

According to IFRS 6 “*Exploration for and evaluation of mineral resources*”, an entity may develop a specific accounting policy for those assets in the exploration and evaluation phase. To integrate Repsol Oil & Gas Canada Inc (formerly Talisman and hereinafter “ROGCI”) on the Group’s business and based on its prior experience, the Group has reviewed its accounting policies and, in particular, it has considered that the capitalization of the geology and geophysics costs (G&G) during the exploration phase provides a fairer presentation of the activities economic reality global oil and gas exploration investments, thereby making the information provided more valuable for financial statement users.

Appendix III updates the full wording of notes 7(b) and 8(c) of Note 2 “*Basis of presentation*” of the 2015 consolidated financial statements, as modified to reflect the above-mentioned change in accounting policy.

As stipulated in IAS 8, this change in accounting policy must be applied with retrospective effect. To this end, the consolidated balance sheet and the consolidated statement of changes in equity at September 30, 2016 and December 31, 2015 presented in these financial statements have been restated to include the necessary modifications in respect of the condensed consolidated interim financial statements for the third quarter and official 2015 Consolidated Financial Statements<sup>2</sup>. The impacts on the Group's balance sheets at January 1 and December 31, 2015 are as follows:

Millions of euros	Investments accounted for using the equity method	Intangible Assets and Property, plant and equipment	Deferred tax liabilities	Reserves and translation differences	Net Income
January 1, 2015	31	285	86	230	-
December 31, 2015	40	33	(6)	244	(165)

Note: These amounts are presented net of the tax gains associated with the activities in Alaska that were previously recognized as revenue for the purpose of consistency with the new G&G cost accounting policy.

Additionally, as required under prevailing accounting standards, the earnings per share figures for the nine-month period ended September 30, 2015 have been restated in order to factor into the calculation the average number of shares outstanding in the wake of the capital increases carried out as part of the shareholder remuneration scheme known as the “*Repsol Flexible Dividend*” Program. This scheme is detailed in Note 5.6 “*Equity*”.

<sup>1</sup> The accounting standards applicable for the first time from January 1, 2016 are: i) Amendments to IFRS 11 *Acquisitions of interests in joint operations*; ii) Amendments to IAS 16 and IAS 41 *Bearer plants*; iii) Amendments to IAS 16 and IAS 38 *Clarification of acceptable methods of depreciation and amortization*; iv) Annual Improvements to IFRSs, 2012-2014 Cycle; v) Amendments to IAS 1 *Disclosure initiative*; vi) Amendments to IAS 27 *Equity method in separate financial statements*; and amendments to IFRS 10, IFRS 12 and IAS 28: *Investment entities: Applying the consolidation exception*. As for new standards issued for mandatory application in future years, the only noteworthy developments with respect to the information provided in Note 2 of the 2015 consolidated financial statements relate to the issuance of Clarifications to IFRS 15 *Revenue from contracts with customers*; Amendments to IFRS 2 *Classification and measurement of share-based payment transactions*; and Amendments to IFRS 4 *Applying IFRS 9 with IFRS 4 insurance contracts*.

<sup>2</sup> The consolidated income statement for the nine-month period ended September 30, 2015 has not been restated as the impact of the accounting change is not significant.

## **2.4 Changes in estimates and accounting judgments**

The preparation of these interim financial statements requires the use of judgments and estimates that affect the measurement of recognized assets and liabilities, the presentation of contingent assets and liabilities at the reporting date and the amounts of income and expense recognized during the reporting period. Actual results may differ significantly from these estimates.

These estimates are made based on the best information available, as described in Note 3 "Accounting estimates and judgments" of the consolidated financial statements for the financial year 2015. The methodology used to calculate the estimates made at year-end 2015 has not changed significantly in the first nine months of 2016.

## **2.5 Seasonality**

Amongst the Group activities, the liquefied petroleum gas (LPG) and natural gas businesses are those that involve the greatest seasonality due to their dependence on climatological conditions, with increased activity during winter and decreased activity during summer in the northern hemisphere.

## **2.6 Information by business segment**

### Definition of segments

The definition of the Repsol Group's business segments is based on the delimitation of the different activities performed and from which the Group earns revenue or incurs expenses, as well as on the organizational structure approved by the Board of Directors for business management. Using these segments as a reference point, Repsol's management team (the Corporate, E&P and Downstream Executive Committees) analyzes the main operating and financial indicators in order to make decisions about segment resource allocation and to assess how the Company is performing. Against this backdrop, following the sale of 10% of Gas Natural SDG, S.A and termination of the shareholder agreement with La Caixa on September 21, 2016 (Note 3), Gas Natural Fenosa no longer qualifies as an operating segment. From that date on, the remaining interest in Gas Natural SDG, S.A. is included under "*Corporation and others*".

The operating segments of the Group are:

- *Upstream*, corresponding to exploration and production of crude oil and natural gas reserves and;
- *Downstream*, corresponding, mainly, to the following activities: (i) refining and petrochemistry, (ii) trading and transportation of crude oil and oil products, (iii) commercialization of oil products, petrochemical and LPG, (iv) the commercialization, transport and regasification of natural gas and liquefied natural gas (LNG).

Finally, *Corporation and others* includes activities not attributable to the aforementioned businesses, and specifically, corporate expenses, income and other metrics related to the remaining interest in Gas Natural SDG, S.A.<sup>1</sup>, net finance costs and inter-segment consolidation adjustments.

The Group has not aggregated any operating segments for presentation purposes.

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<sup>1</sup> It includes net income of the company according to the equity method. The other measures (EBITDA, free cash flow, etc.) only reflect the cash flows affecting the Group in its capacity as shareholder in Gas Natural SDG, S.A. (dividends, etc.).

### Presentation of segment results

Repsol presents the results for each segments including those corresponding to its joint ventures<sup>1</sup> and other managed companies operated as such<sup>2</sup>, in accordance with the percentage interest held by the Group, considering their operating and economic metrics in the same manner and with the same level of detail as for fully-consolidated companies. Thus, the Group considers that the nature of its businesses and the way in which results are analyzed for decision-making purposes is adequately reflected.

In addition, the Group, considering its business reality and in order to make its disclosures more comparable with those in the sector, utilizes as a measure of segment profit the so-called Adjusted Net Income, which corresponds to net income from continuing operations at “*Current cost of supply*” or CCS after taxes and minority interests and not including certain items of income and expense (“*Special Items*”). Net finance cost is allocated to the *Corporation and others* segment's Adjusted Net Income/Loss.

Although this measure of profit (CCS), widely used in the industry to report the earnings generated in *Downstream* businesses which necessarily work with significant volumes of inventories that are subject to constant price fluctuations, is not accepted in European accounting standards, it does facilitate comparison with the earnings of sector peers and enables analysis of the underlying business performance by stripping out the impact of price fluctuations on reported inventory levels. Using the CCS method, the cost of volumes sold during the reporting period is calculated using the costs of procurement and production incurred during that same period. As a result, Adjusted Net Income does not include the so-called Inventory Effect. This Inventory Effect is presented separately, net of tax and minority interests, and corresponds to the difference between income at CCS and that arrived at using the Weighted Average Cost approach, which is the method used by the Company to determine its earnings in accordance with European accounting regulations.

Furthermore, Adjusted Net Income does not include the so-called Special Items, i.e., certain material items whose separate presentation is considered appropriate in order to facilitate analysis of the ordinary business performance. It includes gains/losses on disposals personnel restructuring charges, asset impairment losses and provisions for material contingencies and charges Special Items are presented separately, net of the tax effect and minority interests.

For each of the metrics identified by segments in Appendix V (adjusted net income, equity effect, specific outcome...), the corresponding items and figures are indicated to facilitate reconciliation with the corresponding metrics prepared in accordance with IFRS-EU.

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<sup>1</sup> See heading 5.2 “*Investments accounted for using the equity method*” of the accompanying interim condensed consolidated financial statements and Appendix I of the Consolidated Financial Statements for the financial year 2015, which identify the Group's main joint ventures.

<sup>2</sup> It corresponds to Petrocarabobo, S.A., (Venezuela), an associated entity of the Group.

### **(3) MAIN ACQUISITIONS AND DISPOSALS**

#### Partial disposal of the Group's interest in Gas Natural SDG

On September 21, 2016, Repsol, S.A. and Criteria Caixa, S.A.U. entered into an agreement on September 12, 2016 with GIP III Canary 1 S.À R.L, an entity controlled by Global Infrastructure Management LLC, for the sale of 20% of the share capital of Gas Natural SDG, S.A. for a total sum of €3,803 million. Under it, each of Repsol and Criteria has sold GIP 100.068.934 shares, representing individual 10% interests in the share capital of Gas Natural, SDG, S.A., for €1,901 million, which is equivalent to €19 per share. Finally the transaction has generated a gain for the Repsol Group of €235 million.

As a result of this sale agreement, Criteria and Repsol have terminated the shareholder agreement between "la Caixa" and Repsol on Gas Natural dated January 11, 2000 (as subsequently amended on May 16, 2002, December 16, 2002 and June 20, 2003), as a result of which they had exercised joint control over Gas Natural. At September 30, 2016, Repsol held a 20.26% equity interest in Gas Natural as a result of which it exerts significant interest over the latter, as defined in IAS 28 "Inverstments in associates and joint ventures".

#### Sale of the piped-gas business in Spain

Under the agreements reached in 2015 for the sale of the Group's piped gas business in Spain, in 2016, Repsol Butano, S.A. sold LPG facilities to Gas Natural Fenosa group companies, Redexis Gas, S.A., Naturgas Energía y Distribución, S.A.U. and Distribución y Comercialización de Gas de Extremadura, S.A. for €423 million, generating a pre-tax gain of €294 million of which €200 million was recognized in the third quarter.

#### Sale of the UK wind power business<sup>1</sup>

In May 2016, Repsol closed the sale of its UK wind power business to the Chinese group SDIC Power for €265 million. The transaction included Repsol's interests in Wind Farm Energy UK Limited (100%) and in the Inch Cape Offshore Limited (100%), Beatrice Wind Limited (100%) and Beatrice Offshore Windfarm Limited (25%) developments off the coast of eastern Scotland. The sale generated a pre-tax gain of €100 million in the second quarter of 2016.

#### Sale of the LPG businesses in Peru<sup>2</sup> and Ecuador

In April 2016, Repsol agreed the sale of LPG businesses in Peru and Ecuador to Abastible, an international operator from South America, The sale of the business in Peru for €236 million closed on June 1, 2016, generating a pre-tax gain of €129 million in the second quarter of 2016. At September 30, 2016, the assets and liabilities of the LPG business in Ecuador were classified as held for sale (Note 5.3).

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<sup>1</sup> The Group has derecognized €176 million of assets and €20 million of liabilities (€174 million of non-current assets, €8 million of non-current liabilities and €1 million of cash and cash equivalents) as a result of this transaction.

<sup>2</sup> The Group has derecognized €186 million of assets and €69 million of liabilities (€171 million of non-current assets, €1 million of current liabilities and €1 million of cash and cash equivalents) as a result of this transaction.

## (4) RESULTS AND OTHER MEASURES BY OPERATING SEGMENT<sup>1</sup>

### 4.1 Main performance indicators

Financial indicators (1)	Q3		M9		Macroeconomic environment	Q3		M9	
	2016	2015	2016	2015		2016	2015	2016	2015
<b>Results</b>					Brent (\$/bbl) (average)	45.9	50.5	41.9	55.3
EBITDA CCS	1,148	1,417	3,557	3,888	WTI (\$/bbl) (average)	44.9	46.5	41.5	51.0
Adjusted Net Income	307	159	1,224	1,399	Henry Hub (\$/mBtu) (average)	2.8	2.8	2.3	2.8
Net Income	481	(221)	1,120	832	Algonquin (\$/mBtu) (average)	2.8	2.4	2.9	5.4
Earnings per share (€/share)	0.33	(0.16)	0.76	0.56	Exchange rate (\$/€) (average)	1.12	1.11	1.12	1.11
Capital employed <sup>(2)(5)</sup>	n.a.	n.a.	39,170	40,702					
ROACE (%) <sup>(3)(5)</sup>	n.a.	n.a.	5.0	3.0					
<b>Financial overview</b>					<b>Our business performance<sup>(1)</sup></b>	<b>Q3</b>	<b>M9</b>		
Free cash flow <sup>(4)</sup>	2,117	568	2,892	(7,456)		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net debt (ND) <sup>(5)</sup>	n.a.	n.a.	9,988	11,934	<b>Upstream</b>				
ND / EBITDA CCS (x times) <sup>(5)</sup>	n.a.	n.a.	2.11	2.39	Total liquids production (kbb/d)	239	244	247	193
ND / Capital employed (%) <sup>(5)</sup>	n.a.	n.a.	25.5	29.4	Total gas production (kboe/d)	432	409	447	319
<b>Shareholder remuneration</b>					Total hydrocarbon production (kboe/d)	671	653	694	512
Total shareholder remuneration (€/share)	0.29	0.48	0.76	0.96	Average crude oil realization price (\$/bbl)	41.5	44.4	37.2	48.3
					Average gas realization price (\$/kscf)	2.2	2.8	2.3	2.9
					EBITDA	502	334	1,435	1,237
					Adjusted Net Income	(28)	(395)	35	(633)
					Net Investments <sup>(10)</sup>	444	803	1,725	10,452
<b>Main stock indicators<sup>(1)</sup></b>	<b>Q3</b>	<b>M9</b>			<b>Downstream</b>				
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	Refining capacity (kbb/d)	998	998	998	998
Share price at closure (€/share)	12.08	10.41	12.08	10.41	Conversion index in Spain (%)	63	63	63	63
Average share price (€/share)	11.88	13.80	10.82	15.86	Refining margin indicator in Spain (\$/bbl)	5.1	8.8	6.0	8.9
Market capitalisation at closure	17,698	14,574	17,698	14,574	Oil product sales (kt)	12,471	12,571	34,522	35,292
					Petrochemical product sales (kt)	702	701	2,178	2,125
					LPG sales (kt)	327	459	1,379	1,689
					Gas sales in North America (TBtu)	89.9	62.1	310.7	226.3
<b>Other indicators</b>	<b>Q3</b>	<b>M9</b>			EBITDA CCS	695	1,154	2,272	2,897
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	Adjusted Net Income	395	682	1,329	1,655
<b>People</b>					Net Investments <sup>(10)</sup>	(196)	(122)	(454)	161
Total employees <sup>(6)</sup>	n.a.	n.a.	25,905	28,260					
Number of new hires in the year <sup>(7)</sup>	860	1,140	2,168	6,006					
<b>Safety and environmental management</b>									
Overall Frequency Rate of accidents <sup>(8)</sup>	n.a.	n.a.	0.79	1.01					
Total Frequency Rate of accidents <sup>(9)</sup>	n.a.	n.a.	1.66	2.44					
Reduction of CO <sub>2</sub> emissions (kt)	34.4	74.4	122.3	166.9					

**NOTE:** The business measures and indicators are not reviewed by the auditor.

- (1) Where applicable, expressed in €million.
- (2) Capital employed from continuing operations.
- (3) The ROACE as of September, 30 2016 is an annualised indicator by a mere extrapolation of this period's figures.
- (4) Corresponds to the cash flow from operating and investing activities. During 2015, this figure includes the investment in the ROGCI business combination (Note 4.1 of the 2015 consolidated financial statements).
- (5) Comparative figure 2015 corresponds to December 31, 2015.
- (6) The workforce figure does not include employees of partially-owned companies in which Repsol does not have management control.
- (7) The reporting criteria has been modified to align it with the figure reported in the 2015 Group Management Report. It only contemplates the fixed or temporary employees with no prior working relationship with the company as new hires. The percentage of fixed new hires was 32% in both Q3 2016 and Q3 2015.
- (8) Overall Lost Time Injury Frequency Rate (LTIFR) with sick leave: number of lost time and fatal accidents recorded over the year, per million work hours.
- (9) Total Recordable Incident Rate (TRIR): number of time accidents without lost time, with lost time and fatal accidents over the year, per million work hours.
- (10) Net investments in operating assets divestments.

<sup>1</sup> All of the information presented throughout this Note, unless expressly stated to the contrary, has been prepared using the Group's reporting model (see Note 2.6).

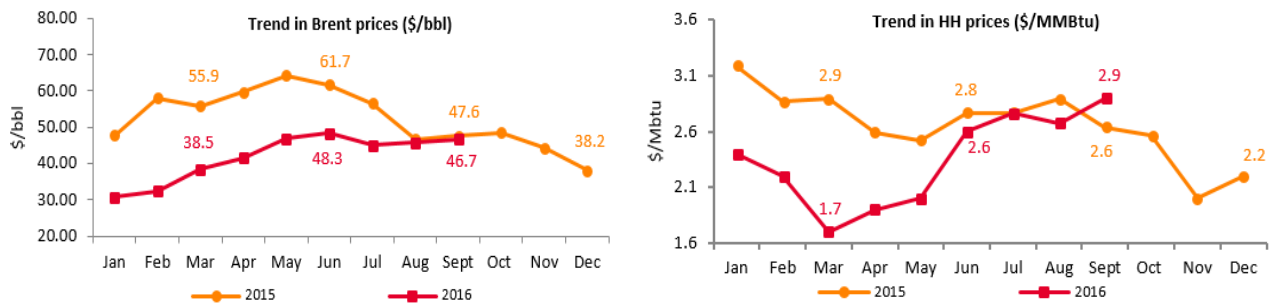
## 4.2 Macroeconomic outlook

The global economy continued to grow at a moderate pace during the third quarter of 2016. However, this was against the context of diminishing risks in general. Although the start of the quarter was marked by the turbulence triggered by the Brexit referendum, the markets went on to gradually digest the idea that the UK's exit from the European Union (EU) will be gradual; ultimately, the shift towards laxer monetary policy of the Bank of England and the progress made on the process were reflected in sterling pound weakness. The improved outlook for emerging market growth, the rebound in oil prices and the expansionary monetary policies pursued in the developed world have combined to create a climate in which equity markets have rallied, volatility fallen and capital flows found their way back to the emerging markets. Lastly, the slower than expected growth in the US in the first half, coupled with a policy agenda marked by the November presidential elections, prompted the Federal Reserve to leave its benchmark interest rates intact. Meanwhile, in the EU, growth is acceptable although the weak of the Italian banks and the squeeze on margins in the European financial sector are threats.

Brent prices averaged \$45.9 per barrel (\$/bbl) in the third quarter, slightly below the second-quarter average. Having hit a 13-year low on January 20, when prices in the physical Brent market fell to \$26.39/bbl, prices went on to rally to \$51.33/bbl in early June, driven, among other factors, by strong demand growth and an increase in unplanned supply outages. In July, as part of the production that had been offline came back on stream, and growing uncertainties regarding the outlook for the supply-demand equilibrium, oil prices corrected once again to around \$40/bbl. Oil prices then went on to firm to \$47.7/bbl by the September close, fueled by a perceived fall in non-OPEC supply, particularly related to the unconventional production figures in the US, and rumors of an agreement between OPEC and non-OPEC producer nations to freeze quotas. In parallel, demand for oil was healthy, particularly transportation-related consumption and demand in emerging markets such as India, where the oil price elasticity effect was particularly evident.

During the third quarter of 2016, US natural gas prices (Henry Hub) averaged \$2.8/MBtu, up 34% quarter-over-quarter. Moreover, Henry Hub prices hit a high for the year in September (\$3.14 /MBtu on September 22, 2016). This price recovery was driven by healthy growth in domestic demand against the backdrop of falling dry gas production which translated into inventory depletion. As for inventories, injection volumes were below the five-year average in most weeks of the storage injection season; moreover, the third quarter was marked by a draw of underground storage (on August 5), the third storage withdrawal during injection season since 2006.

Recent development Brent and Henry Hub prices



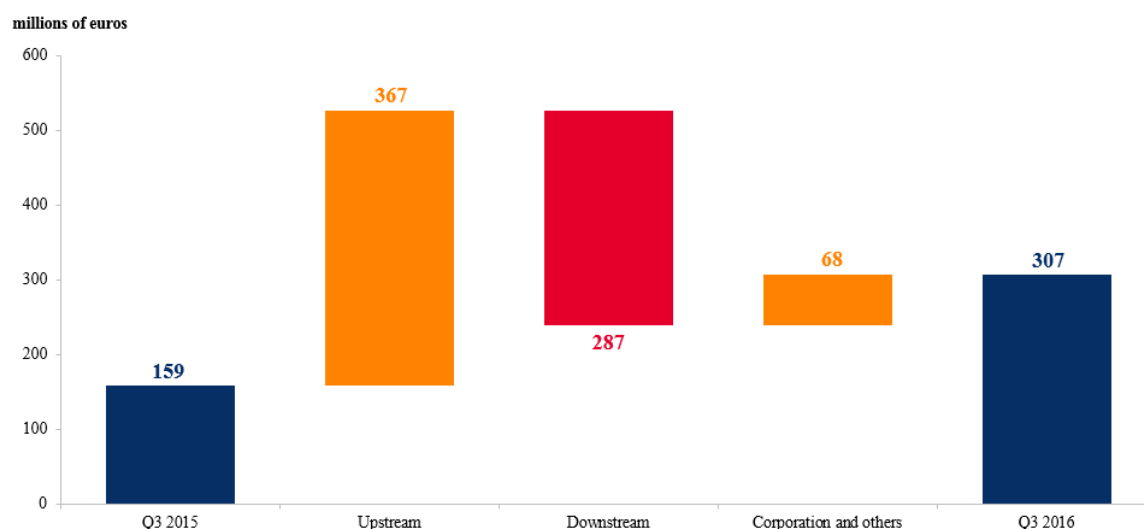
### 4.3 Results

	Millions of euros			
	Q3 2016	Q3 2015	M9 2016	M9 2015
Upstream	(28)	(395)	35	(633)
Downstream	395	682	1,329	1,655
Corporation and others	(60)	(128)	(140)	377
<b>ADJUSTED NET INCOME</b>	<b>307</b>	<b>159</b>	<b>1,224</b>	<b>1,399</b>
Inventory effect	(6)	(272)	(4)	(329)
Special items	180	(108)	(100)	(238)
<b>NET INCOME</b>	<b>481</b>	<b>(221)</b>	<b>1,120</b>	<b>832</b>

The third-quarter 2016 results, compared to the same period in the previous year, occur in an environment marked by low crude oil and gas prices (despite its recovery during 2016, prices were lower than the same period in the previous year) and lower international refining and chemical margins. Against this backdrop, the Company has continued with its operating efficiency enhancement, implementation of synergies, investment reduction and active portfolio management projects under the scope of its 2016-2020 Strategic Plan.

**Adjusted Net Income** increased by 93% year-on-year to €307 million in the third quarter of 2016. Better results in the *Upstream* segment which, despite the difficult price environment, continue with the positive trend experienced in the second quarter due to production increase and cost reduction, as well as better results in *Corporation and others*, mainly due to lower interest expense and exchange rate trends, have been partially offset by lower results in the *Downstream* segment, affected by lower margins in the Refining and Chemicals businesses.

#### Adjusted Net Income Variation Q3 2016 vs. Q3 2015



In the *Upstream* segment, crude oil and gas realization prices decreased by 6.5% and 21%, respectively, mainly penalized by lower international benchmark prices in July, partially mitigated by price recovery in August and September. Despite this difficult environment, adjusted net income in the *Upstream* segment amounted to €28 million, improving significantly with respect to the same period of the previous year.

Production increased by 3% to an average of 671 kboe/d during the quarter, mainly driven by Venezuela, Peru, and Brazil, more than offsetting the drop in production in Trinidad & Tobago, due to maintenance stoppages and operating field incidents, and in the US, due to the sale of the 26% of its interest in Eagle Ford in December 2015 and natural reserve depletion. Moreover, regarding the exploration activity, the conclusion of three exploratory wells and one appraisal well

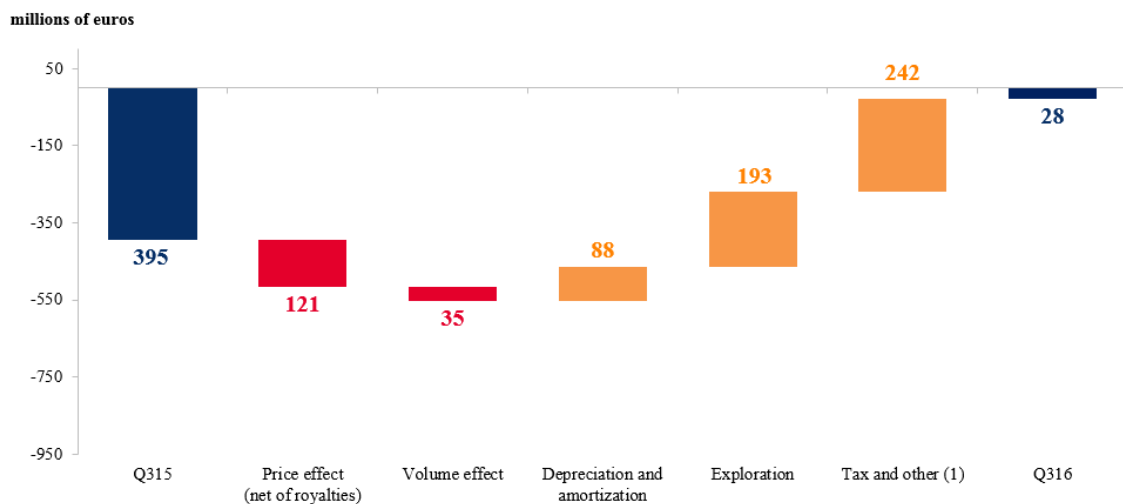


during the reporting period stand out. One of the drills turned out negative and the other three are still under evaluation.

In terms of the income of the period, the negative impact on revenue of low crude oil and gas prices, as well as the drop in sales volumes, despite higher production, was offset by a significant reduction in exploration costs (as a result of fewer unsuccessful drills and the capitalization of G&G costs in 2016; see Note 2.3) and in operating expenses (driven by enhanced operating efficiency). It is also worth highlighting the decrease in amortization charges due to impairment losses recognized on certain assets as well as the increase in proved reserves at some plays.

EBITDA in *Upstream* amounted to €502 million, 50% higher year-on-year. Net investments of the period (€444 million), which include the capitalization of G&G costs, were 45% lower year-on-year.

### Upstream Adjusted Net Income Variation Q3 2016 vs Q3 2015



(1) Mainly includes tax expenses and other operative incomes and expenses.

In the *Downstream* segment, adjusted net income amounted €395 million, compared to €682 million in Q315.

### Downstream Adjusted Net Income Variation Q3 2016 vs. Q3 2015



This performance is primarily attributable to:

- In Refining, the adverse impact of the drop in margins (due to middle distillate and gasoline spread weakness and narrower differentials in heavy crude grades) and lower distilling volumes due to economic optimization was partially mitigated by lower energy costs and lower taxes in Spain. Note that in the early part of the fourth quarter, differentials recovered substantially, positively impacting the Group's refining margin, which in October surpassed the \$7/bbl mark. Elsewhere, the drop in the refining margin in the third quarter was offset by higher capacity utilization ratios across the refining system to levels that were above the averages observed in 2015 and the first half of 2016.
- In Chemicals, lower international margins were partially mitigated by growth in sales volumes of the most profitable products and the positive impact of measures taken under the scope of the competitiveness plan. Results from cogeneration activities also weakened due to the positive effect of the recognition in the third quarter of 2015 of a price regularization of prior years.
- In the *Trading* and *Gas&Power* businesses, it is worth highlighting the adverse trend in the US *Gas&Power* business due to the mark-to-market valuation of products and derivatives, affected by low gas prices, offsetting the growth in sales volumes.
- In the Commercial businesses (Marketing, LPG, Lubricants, etc.) which came in flat year-on-year, it is worth highlighting volume growth and margin expansion in the service stations segment in Spain and Portugal.

EBITDA CCS in *Downstream* amounted to €695 million (compared to €1,154 million in 2015), while net investments amounted to €196 million, which include €306 million generated by the sale of the piped gas assets in Spain.

**Corporation and others** reported an adjusted net income of €60 million, higher than third quarter 2015. This performance essentially reflects the drop in corporate expenses as a result of the efficiency program being executed as well as better net finance results due to lower interest expense and exchange rate impacts.

The negative **Inventory Effect** €6 million is attributable to the trend of product prices during the quarter.

In the third quarter, **Special Items** (after tax) amounted to €180 million and correspond mainly to: i) Divestments<sup>1</sup>: gains on the sale of a 10% interest in Gas Natural SDG, S.A. (€235 million) and the sale of the piped gas assets in Spain (€149 million), and ii) Provisions, mainly related to the impact of the devaluation of the Venezuelan currency (€113 million) and provisions for onerous contracts at drilling platforms (€43 million).

<i>Millions of euros</i>	Upstream		Downstream		Corporation		TOTAL	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Divestments	(2)	44	184	295	201	-	383	339
Workforce restructuring charges	(6)	(4)	(13)	(1)	(6)	(3)	(25)	(8)
Impairments	(13)	(171)	(11)	(273)	-	-	(24)	(444)
Provisions and other	(265)	15	(1)	(3)	112	(7)	(154)	5
<b>TOTAL</b>	(286)	(116)	159	18	307	(10)	180	(108)

<sup>1</sup> For further details, see Note 3.

As a result of the foregoing, **Net Income** for the third quarter amounted to €481 million, compared to €221 million in the same period of 2015.

**Net financial debt** stood at €9,988 million at the September close, down 14.7% from the June close. This trend is attributable to free cash flow from operations generated during the period and the proceeds from the sale of a 10% interest in Gas Natural SDG, S.A., partially mitigated by the dividend paid out in July, purchases of treasury shares and interest accrued during the reporting period.

Group **liquidity**, including committed and undrawn credit facilities, stood at €7,919 million at September 30, 2016, which is enough to cover its short-term debt maturities by a factor of 1.9. At the reporting date, the Group had €4,347 million of undrawn credit facilities (year-end 2015: €6,360 million).

#### 4.4 Information by geographical area

The geographic distribution of the main figures in each of the detailed periods is as follows:

<i>Millions of euros</i>	Third quarter of 2016 and 2015					
	Operating Revenue <sup>(1)</sup>		Adjusted net income <sup>(1)</sup>		Net operating investments <sup>(1)(2)</sup>	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015	Q3 2016	Q3 2015
<b>Upstream</b>	<b>1,210</b>	<b>1,419</b>	<b>(28)</b>	<b>(395)</b>	<b>444</b>	<b>803</b>
Europe, Africa and Brazil	346	332	51	(45)	149	166
Latam and Caribbean	349	488	18	(62)	122	262
North America	276	312	(11)	(54)	61	184
Asia and Rusia	239	287	13	5	23	46
Exploration and Others	-	-	(99)	(239)	89	145
<b>Downstream</b>	<b>8,312</b>	<b>9,585</b>	<b>395</b>	<b>682</b>	<b>(196)</b>	<b>(122)</b>
Europe	7,634	8,973	405	643	(195)	(188)
Rest of the world	1,239	1,091	(10)	39	(1)	66
Adjustments	(561)	(479)	-	-	-	-
<b>Corporation and other adjustments</b>	<b>(204)</b>	<b>(300)</b>	<b>(60)</b>	<b>(128)</b>	<b>(1,893)</b>	<b>14</b>
<b>TOTAL</b>	<b>9,318</b>	<b>10,704</b>	<b>307</b>	<b>159</b>	<b>(1,645)</b>	<b>695</b>

<i>Millions of euros</i>	First nine months accumulative of 2016 and 2015							
	Operating Revenue <sup>(1)</sup>		Adjusted net income <sup>(1)</sup>		Net operating investments <sup>(1)(2)</sup>		Capital employed <sup>(1)(3)</sup>	
	M9 2016	M9 2015	M9 2016	M9 2015	M9 2016	M9 2015	M9 2016	M9 2015
<b>Upstream</b>	<b>3,519</b>	<b>3,496</b>	<b>35</b>	<b>(633)</b>	<b>1,725</b>	<b>10,452</b>	<b>23,614</b>	<b>23,280</b>
Europe, Africa and Brazil	933	788	109	(100)	444	359	-	-
Latam and Caribbean	1,152	1,465	190	25	526	812	-	-
North America	742	707	(125)	(73)	255	437	-	-
Asia and Rusia	692	536	32	34	130	82	-	-
Exploration and Others	-	-	(171)	(519)	370	8,762	-	-
<b>Downstream</b>	<b>22,950</b>	<b>28,994</b>	<b>1,329</b>	<b>1,655</b>	<b>(454)</b>	<b>161</b>	<b>9,801</b>	<b>9,758</b>
Europe	21,120	26,761	1,345	1,594	(332)	17	-	-
Rest of the world	3,180	3,777	(16)	61	(122)	144	-	-
Adjustments	(1,350)	(1,544)	-	-	-	-	-	-
<b>Corporation and other adjustments</b>	<b>(606)</b>	<b>(792)</b>	<b>(140)</b>	<b>377</b>	<b>(1,878)</b>	<b>83</b>	<b>5,755</b>	<b>7,664</b>
<b>TOTAL</b>	<b>25,863</b>	<b>31,698</b>	<b>1,224</b>	<b>1,399</b>	<b>(607)</b>	<b>10,696</b>	<b>39,170</b>	<b>40,702</b>

<sup>(1)</sup> For the reconciliation of these figures with the IFRS-EU disclosures, see Appendix IV.

<sup>(2)</sup> Includes investments accrued during the period net of divestments but does not include investments in "Other financial assets".

<sup>(3)</sup> Includes capital employed corresponding to joint ventures, non-current, non-financial assets, working capital and other non-financial liability headings.

## (5) OTHER INFORMATION

This section outlines the most significant changes affecting the consolidated balance sheet and income statement headings in period.

### 5.1 Assets

#### *Goodwill*

On May 8, 2015, Repsol through its Canadian subsidiary Repsol Energy Resources Canada Inc., acquired ROGCI<sup>1</sup>. The total amount paid out for the acquisition amounted to €8,005<sup>2</sup> million.

The difference between ROGCI's acquisition price and the fair value of the assets acquired and liabilities assumed and recognized, including the deferred taxes arising as a result of the difference between the fair value of the assets acquired and their tax basis, was recognized within "Goodwill" following the criteria outlined in Note 4 of the 2015 consolidated financial statements.

The amounts recognized in respect of this business combination are definitive, once the 12-month period following the acquisition date provided for in IFRS 3 "Business Combinations" has elapsed. There have been no material changes with respect to the amounts recognized at December 31, 2015. The breakdown of the carrying amount of the net assets acquired and the resulting goodwill is as follows:

Millions of euros	Fair value	Book value of the acquired company
Intangible assets	493	501
Property, plant and equipment	13,459	9,840
Investments accounted for using the equity method	452	505
Deferred tax assets	2,344	2,022
Other non-current assets	106	106
Other current assets	746	767
Cash and cash equivalents	491	458
<b>Total Asstes</b>	<b>18,091</b>	<b>14,199</b>
Non-current provisions	(4,700)	(1,816)
Non-current financial liabilities	(3,613)	(3,391)
Deferred tax liabilities	(1,879)	(768)
Other non-current liabilities	(108)	(108)
Current provisions	(661)	(564)
Current financial liabilities	(985)	(985)
Other current liabilities	(693)	(693)
<b>Total Liabilities</b>	<b>(12,639)</b>	<b>(8,325)</b>
<b>NET ASSETS ACQUIRED</b>	<b>5,452</b>	<b>5,874</b>
<b>ACQUISITION COST</b>	<b>8,005</b>	
<b>GOODWILL</b>	<b>2,553</b>	

<sup>1</sup> Talisman Energy Inc. changed its registered name to Repsol Oil & Gas Canada Inc. on January 1, 2016 (see Note 32 of the 2015 consolidated financial statements).

<sup>2</sup> It includes the effect of exchange rate hedging transactions on the acquisition price (see Note 17.1 of the 2015 consolidated financial statements).

### *Investments and commitments*

The main investments made by the Group are detailed in note 4.4 "Information by geographical area".

### *Capital commitments*

The main capital commitments assumed in the nine months ended September 30, 2016 correspond to:

- Extension of the production-sharing agreement ("PSC") at productive block PM3 CAA in Malaysia until December 31, 2027, including minimum investments undertaken under the scope of the PSC in the amount of USD60 million (€54 million) and the payment, in tranches through 2020, for the right to extend the contract in the amount of USD180 million (€162 million).
- Expansion of the Tangguh LNG project in Indonesia entailing project development in the amount of USD 261 million (€235 million) (amounts stated at Repsol's percentage interest in the agreement).
- Under the contract with Nm Industrial Development S.A.C (a Grupo Sacyr subsidiary), an undertaking to build, hold, operate and transfer in 2028, at the end of the contract term, ownership of the gas compression facilities at Block 57 in Peru in the amount of €103 million.

## **5.2 Investments accounted for using the equity method**

Repsol accounts using the equity method all investments in joint ventures and associates companies in which it participates. Its main joint venture is its stake in Repsol Sinopec Brasil S.A., while its main investments in associates are its investments in Gas Natural SDG, S.A. and Petrocarabobo, S.A.

These investments are reflected in the Group's financial statements as follows:

	Millions of euros			
	Carrying amount of the investment		Share of results	
	09/30/2016	12/31/2015	09/30/2016	09/30/2015
Joint Ventures	6,853	11,672	242	250
Associates	3,354	126	10	(15)
<b>TOTAL</b>	<b>10,207</b>	<b>11,798</b>	<b>252</b>	<b>235</b>

The movement in this consolidated balance sheet heading during the period:

Millions of euros	2016	2015
<b>Balance at January 1</b>	<b>11,798</b>	<b>11,141</b>
Net investments <sup>(1)</sup>	(1,210)	332
Changes in the scope of consolidation	1	385
Share of the results of companies accounted for using the equity method after taxes	252	235
Dividends distributed	(340)	(288)
Translation differences	(129)	425
Reclasifications and other changes	(165)	(77)
<b>Balance at September, 30</b>	<b>10,207</b>	<b>12,153</b>

<sup>(1)</sup> Includes the sale of its 10% interest in Gas Natural SDG, S.A. (Note 3).

### 5.3 Non-current investments held for sale and gains on disposal of non-current assets.

In April 2016, Repsol agreed the sale of its LPG businesses in Ecuador to the South American multinational, Abastible (Note 3). At September 30, 2016, the assets and liabilities associated with the LPG business in Ecuador were included under “*Non-current assets held for sale*” and “*Liabilities related to non-current assets held*” in the amounts of €44 million and €10 million, respectively. The sale of the LPG business in Ecuador closed on October 1, 2016 (Note 6).

In October 2016, Repsol Exploración S.A. and Perenco Trinidad & Tobago (Holdings) ETVE SLU have agreed the sale of Repsol E&P T&T Limited for a price of €12 million. At the date of authorizing the accompanying financial statements for issue, the sale’s close was subject to delivery of certain contractual obligations, which end its assets and liabilities have been classified within “*Non-current assets held for sale*” and “*Liabilities related to non-current assets held*” in the amounts of €259 million and €150 million, respectively.

### 5.4 Financial Instruments

#### *Financial Assets*

	Millions of euros	
	09/30/2016	31/12/2015
Non-current financial assets	754	715
Non-current derivatives on trading transactions <sup>(1)</sup>	1	4
Other current financial assets	1,287	1,237
Current derivatives on trading transactions <sup>(1)</sup>	69	413
Cash and cash equivalent	3,387	2,448
<b>Total financial asstes</b>	<b>5,498</b>	<b>4,817</b>

<sup>(1)</sup> Recognized in heading “*Other non-current assets*” and “*Other receivables*” of the consolidated balance sheet.

### *Financial Liabilities*

	Millions of euros	
	09/30/2016	12/31/2015
Non-current financial liabilities	9,571	10,581
Non-current derivatives on trading transactions <sup>(1)</sup>	3	1
Current financial liabilities	6,751	7,073
Current derivatives on trading transactions <sup>(1)</sup>	143	129
<b>Total financial liabilities</b>	<b>16,468</b>	<b>17,784</b>

<sup>(1)</sup> Recognized in heading “*Other non-current assets*” and “*Other receivables*” of the consolidated balance sheet.

For further information about the financial instruments recognized on the Group's balance sheet, classified into the various categories of financial assets and liabilities, see Appendix IV. Below are the main updates for the various financial liability headings:

#### *Bonds and other securities*

The main issues, repayments or buybacks of bonds and other marketable securities carried out during the first nine months of 2016 are the following:

- In January 2016, Repsol International Finance, B.V. issued €100 million of 15-year bonds; the issue was placed privately and was priced at 5.375% of par.
- In February 2016, €850 million of 4.25% bonds issued by Repsol International Finance, B.V. in December 2011 were repaid at maturity.
- In March 2016, \$150 million of 8.5% bonds placed privately by Repsol Oil & Gas Canada Inc. in March 2009 were repaid at maturity.
- Repsol Oil & Gas Canada Inc. has repurchased bond issues due 2019, 2021, 2027, 2035, 2037, 2038 and 2042 with a total face value of \$631 million. The cancellation of the repurchased bonds has triggered the recognition of a €49 million pre-tax gain recognized in “*Impairment and gains/ (losses) on disposal of financial instruments*”.
- In July 2016, Repsol International Finance, B.V. completed two private bond placements: it raised €600 million of bonds due in two years and bearing interest at 3-month Euribor + 70 bps; and €100 million of 3-year 0.125% bonds.

The balance of the issues of bonds and other securities at September 30, 2016 is as follows:

<b>Security</b>	<b>Issuer</b>	<b>Date</b>	<b>Currency</b>	<b>Face Value (millions)</b>	<b>Average Rate %</b>	<b>Maturity</b>	<b>Market<sup>(5)</sup></b>
Bond <sup>(3)</sup>	Talisman Energy Inc.	Oct-97	Dolar	55	7.250%	Oct-27	-
Bond	Talisman Energy Inc.	Apr-02	Pounds	250	6.625%	Dec-17	LSE
Bond <sup>(3)</sup>	Talisman Energy Inc.	May-05	Dolar	90	5.750%	May-35	-
Bond <sup>(3)</sup>	Talisman Energy Inc.	Jan-06	Dolar	131	5.850%	Feb-37	-
Bond <sup>(3)</sup>	Talisman Energy Inc.	Nov-06	Dolar	119	6.250%	Feb-38	-
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Feb-07	Euro	886	4.750%	Feb-17	LuxSE
Bond <sup>(3)</sup>	Talisman Energy Inc.	Jun-09	Dolar	364	7.750%	Jun-19	-
Bond <sup>(3)</sup>	Talisman Energy Inc.	Nov-10	Dolar	241	3.750%	Feb-21	-
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Jan-12	Euro	1,000	4.875%	Feb-19	LuxSE
Bond <sup>(3)</sup>	Talisman Energy Inc.	May-12	Dolar	97	5.500%	May-42	-
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Sep-12	Euro	750	4.375%	Feb-18	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	May-13	Euro	1,200	2.625%	May-20	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Oct-13	Euro	1,000	3.625%	Oct-21	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Dec-14	Euro	500	2.250%	Dec-26	LuxSE
Bond <sup>(2)</sup>	Repsol International Finance, B.V.	Mar-15	Euro	1,000	4,500% <sup>(4)</sup>	Mar-75	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Dec-15	Euro	600	2.125%	Dec-20	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Jan-16	Euro	100	5.375%	Jan-31	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Jul-16	Euro	600	Eur. 3m +70 p.b.	Jul-18	LuxSE
Bond <sup>(1)</sup>	Repsol International Finance, B.V.	Jul-16	Euro	100	0.125%	Jul-19	LuxSE

<sup>(1)</sup> Issues under the “€ 10,000,000,000 Guaranteed Euro Medium Term Note Programme” (EMTNs), guaranteed by Repsol S.A. and renewed in September 2016.

<sup>(2)</sup> A subordinated bond issued by Repsol International Finance, B.V. and guaranteed by Repsol, S.A. This issue does not correspond to any open-ended or shelf program.

<sup>(3)</sup> Issues undertaken by Talisman Energy Inc. (at present ROGCI) under the scope of its “Universal Shelf Prospectus” and “Medium-Term Note Shelf Prospectus” in the US and Canada, respectively.

<sup>(4)</sup> Coupon scheduled for reset on March 25, 2025 and March 25, 2045.

<sup>(5)</sup> LuxSE (Luxembourg Stock Exchange) and LSE (London Stock Exchange).

Additionally, Repsol International Finance, B.V. (RIF), holds a Euro Commercial Paper (ECP), arranged on May 16, 2013 and guaranteed by Repsol, S.A., with a limit up to €2,000 million; the Program was updated on July 29, 2016. Under this program, a number of issues and liquidations were carried out, with an outstanding balance at September 30, 2016 €1,294 million.

## 5.5 Other risks. Venezuela

Foreign Exchange Agreement No. 35 took effect on March 10, 2016, establishing a new currency regime encompassing two distinct exchange rates: (i) a protected rate (known as DIPRO), initially set at 10Bs/\$ and applicable only to goods, services and remittances qualifying as 'priority'; and (ii) a complementary rate (known as DICOM), a floating yet controlled rate applicable in general. The initial exchange rate established for this rate was 207 Bs/\$. Therefore, as of September 30, 2016 two exchange rates coexisted for the Venezuelan Bolivar: the DIPRO (10Bs/\$) and the DICOM (659Bs/\$).

In addition, Foreign Exchange Agreement No. 9 is applicable to the revenue generated by mixed-ownership companies from oil and gas exports since 2004. This revenue can be kept in currency accounts abroad with a view to servicing payments and outlays that have to be made outside of Venezuela. Exchange Rate Agreement No. 37, which took effect on May 27, 2016, allows privately-held companies that hold gas permits (Cardón IV, S.A.) to hold the dollars generated by their activities outside of Venezuela for the purpose of serving payments and outlays that have to be made outside of Venezuela. The above Agreement further stipulates that these companies may not acquire currency using the official exchange systems.



The impact on profit and loss of the new Exchange Agreements amounts to €159 million and is recognized against the share of earnings of entities accounted for using the equity method.

Venezuela is a hyperinflationary economy. According to data published by the Central Bank of Venezuela, inflation was 56.2% in 2013, 68.5% in 2014 and over 180.9% in 2015. In 2016, the Central Bank of Venezuela has not officially released the cumulative inflation figures; however, according to unofficial reports, cumulative inflation on September 30, 2016 estimates around at 273.22%.

Against this backdrop, Repsol keeps the US dollar as the functional currency of most of its oil and gas exploration and production businesses in Venezuela (primarily carried on through its investees Cardón IV, S.A., Empresa Mixta Petroquiriquire, S.A. and Empresa Mixta Petrocarabobo, S.A.).

Repsol's equity exposure to Venezuela at September 30, 2016 amounts to approximately €2,300 million.

## 5.6 Equity

### 5.6.1 Issued Share Capital

At the Annual General Meeting of May 20, 2016, the Company's shareholders approved two bonus share issues to execute the shareholder remuneration scheme named “*Repsol Flexible Dividend*”, in substitution of what would have been the traditional final dividend from 2015 profits and the interim dividend from 2016 earnings, under which shareholders can instead choose between receiving their remuneration in cash (by selling their bonus share rights in the market or back to the Company) or in Company shares. The first of these bonus share issues was executed between June and July. The main characteristics of this issue are detailed below:

		June / July 2016
<b>COMPENSATION IN CASH</b>	Holders who accepted the irrevocable purchase commitment <sup>(1)</sup>	35.46%
	Regulated fixed price guaranteed	0,292 €gross/ righth
	Repsol gross rights acquisition	€149 millions
<b>REPSOL SHARES REMUNERATION</b>	Holders who chose to receive new shares of Repsol	64.54%
	No.of rights needed for entitlement to one new share	39
	New issued shares	23,860,793
	Increase share capital (approximately)	1.65%
	Bonus share issue close	July, 6

<sup>(1)</sup> Repsol has renounced the bonus share rights acquired by virtue of the purchase commitment and, by extension, the shares corresponding to those rights.

Following the capital increase, the registered share capital of Repsol, S.A. amounted to €1,465,644.100 at September 30, 2016, represented by 1,465,644,100 shares with a nominal value of 1 euro each.

According to the latest information available the significant shareholders of Repsol, S.A. are:

Significant shareholders	% of share capital
Fundación Bancaria Caixa d'Estalvis y Pensions de Barcelona <sup>(1)</sup>	10.05
Sacyr, S.A. <sup>(2)</sup>	8.34
Temasek Holdings (Private) Limited <sup>(3)</sup>	4.86
Blackrock, Inc. <sup>(4)</sup>	3.04

<sup>(1)</sup> Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona” holds its stake through CaixaBank, S.A

<sup>(2)</sup> Sacyr S.A. holds its stake through Sacyr Participaciones Mobiliarias, S.L

<sup>(3)</sup> Temasek holds its stake through its subsidiary, Chembra Investment PTE, Ltd.

<sup>(4)</sup> Blackrock, Inc. holds its shareholding through several funds and accounts managed by fund managers under its control. The information pertaining to Blackrock, Inc. is based on declaration presented by the latter to CNMV on January 15, 2016 regarding its shareholding as of that date.

### 5.6.2 Treasury shares and own equity investments

The main transactions undertaken by the Repsol Group involving treasury shares were as follows:

	No of shares	Cost Millions of €	% capital
<b>Balance at 12/31/2015</b>	<b>18,047,406</b>		<b>1.250%</b>
Open-market purchase	20,495,237	238.7	1.40%
Market sales	(12,000,000)	(153.1)	(0.82)%
Employee Share Acquisition Plan <sup>(1)</sup>	571,510	6.4	0.04%
Loyalty Program 2013-2016 <sup>(1)</sup>	23,815	0.3	0.00%
Repsol Flexible Dividend <sup>(2)</sup>	91,228	-	0.01%
<b>Balance at 9/30/2016 <sup>(3)</sup></b>	<b>26,633,871</b>		<b>1.82%</b>

<sup>(1)</sup> All of the shares acquired under the scope of the Share Acquisition Plan have been delivered to employees.

<sup>(2)</sup> New shares received under the “Repsol Flexible Dividend” scheme bonus share issues corresponding to treasury shares.

<sup>(3)</sup> Between March and September, Repsol Tesorería y Gestión Financiera, S.A. sold a total of 25 million Repsol, S.A. shares. Simultaneously, it arranged equity swaps with financial institutions over a notional amount of 37 million Repsol, S.A. shares; under the equity swap agreements, the voting rights and financial risk intrinsic to the underlying shares have been transferred to the Group of which at September 30 remains in force notional amount of 25 million shares.

### 5.6.3 Earning per share

The earnings per share disclosures for the third quarters and nine-month periods of 2016 and 2015 are provided in the table below:

EARNINGS PER SHARE (EPS)	Q3 2016	Q3 2015	M9 2016	M9 2015
Net income attributed to the parent company (million of euros)	481	(221)	1,120	832
Adjustment of interest expense for subordinated perpetual bonds (million of euros)	(7)	(7)	(21)	(15)
Weighted average number of shares outstanding at September 30 (millions of shares) <sup>(1)</sup>	1,442	1,455	1,445	1,459
<b>EPS basic/diluted (€/share)</b>	<b>0.33</b>	<b>(0.16)</b>	<b>0.76</b>	<b>0.56</b>

<sup>(1)</sup> Share capital registered at September 30, 2015, amounted to 1,400,361,059 shares, though the weighted average number of shares in circulation for purposes of calculating EPS includes the effect of share capital increases carried out as part of the remuneration scheme for shareholders “Repsol Flexible Dividend”, in accordance with the applicable accounting standard (see Note 2.3 “Accounting Policies and Comparison of information”).

#### 5.6.4 Shareholder remuneration

The following table breaks down the dividend payments received by Repsol's shareholders during the nine-month period ending in September 30, 2016, carried out under the "Repsol Flexible Dividend" program:

	No. of free-of-charge allocation rights sold to Repsol	Committed purchase price (€/right)	Cash disbursement (millions of euros)	New shares issued	Remuneration in shares (millions of euros)
December 2015/January 2016	489,071,582	0.466	228	41,422,248	425
June / July 2016	511,212,326	0.292	149	23,860,793	272

#### 5.7 Provisions

The breakdown of current and non-current provisions for the first nine months of 2016 and 2015 is provided below:

Millions of euros	2016	2015
<b>Balance at January, 1</b>	<b>7,204</b>	<b>2,626</b>
Allowances of provisions charged to results	801	276
Reversals of provisions with a credit to results	(180)	(174)
Provisions released due to payment	(380)	(333)
Changes in the scope of consolidation	83	5,106
Translation differences	(48)	9
Reclasifications and other movements	(380)	(218)
<b>Balances at September, 30</b>	<b>7,100</b>	<b>7,292</b>

During the first nine months of 2016, the necessary steps to materialize the workforce reduction announced under the scope of the 2016-2020 Strategic Plan have continued. The legal instrument used to articulate this downsize in Spain was a collective redundancy program, which must be executed in each of the affected companies in accordance with prevailing labor law provisions.

The deed certifying the agreement reached by the Oversight Committee for the Seventh Framework Agreement between the union representatives and Repsol's management to enable the workforce adjustment process in Spain was signed on June 8, ratified in July for all companies involved. The criteria used to designate the affected employees included proximity to retirement age, depending on the company and workplace to which each was assigned.

At September 30, 2016, the Group has recognized a provision for restructuring charges under the above-detailed collective redundancy program in the amount of €333 million, a sum that represents the present value of the best estimate of future disbursements in respect of the people affected by the plan who will leave the company's employment. The cash outlays corresponding to this provision are expected to begin presently and run until 2024.

## **5.8 Operating incomes and expenses**

“*Other operating income*” includes €80 million corresponding to property claims in respect of the damages caused by the application of the maximum retail prices for regulated LPG containers formula established in Spanish Ministerial Order ITC/2608/2009 (which was subsequently overruled by a Supreme Court sentence dated June 19, 2012) ) during the fourth quarter of 2009 and 2010, as well as €20 million of statutory interest accrued on the damages derived under application of the above formula while it was in effect.

Regarding “*Personnel expenses*” heading, it is worth highlighting the workforce restructuring charges deriving mainly from the collective redundancy program in Spain (see previous section), the adjustments for workforce restructuring in other countries and the changes made to the management team.

## **5.9 Tax situation**

### ***Income tax***

For the calculation of this interim period’s corporate income tax, the estimated effective annual tax rate was used. However, tax effects derived from occasional events or unique transactions undertaken during the period are fully taken into account in the period.

The effective tax rate applicable for the first nine months of 2016 to income from continuing operations before tax and before the Group's share of the profits of entities accounted for using the equity method was 20.5%.

This rate is higher compared to the same period last year (14.1%), mainly due to higher earnings in countries and businesses with higher tax rates, the existence of non-deductible expenses and higher taxable income generated by the disposal of assets or investments.

### ***Government and legal proceedings with tax implications***

The information in this section is provided by way of an update on the contents of Note 20.4 of the 2015 consolidated financial statements in respect of the following countries:

#### **Brazil**

Petrobras, as operator of block BMS-S-9, in which Repsol has a 25% ownership interest, has been notified by the Sao Paulo tax authorities of an infraction notice in relation to purported breach of formal requirements (the issuance of supporting tax documentation) related to the onshore-offshore movement of materials and equipment to the offshore drilling platform (including the movement of the platform itself to the drilling site). The criterion adopted by Petrobras is in line with widespread industry practice. A court of first instance has ruled in favor of the taxpayer.

Elsewhere, Petrobras, as operator of the Albacora Leste, BM-S-7 and BMS-9 consortia (and other consortia in which Repsol Sinopec Brasil has no interests), has received infraction notices with respect to withholding on income tax (Imposto de Renda Retido na Fonte or IFFF) and CIDE (Contribuição de Intervenção no Domínio Econômico withholdings) made in 2008 and 2009 and in respect of these same taxes as well as the Social Integration and Contribution to Social Security Financing Program (PIS/COFINS for its acronym in Portuguese) in 2010 in relation to payments to foreign companies for the chartering of exploration platforms and related services used at the above-listed blocks. A court of first instance dismissed the appeal filed by Petrobras on October 3, 2016. The entity is evaluating its liability in this matter from both a tax and contractual perspective.

In addition, Repsol Sinopec Brasil received notices of infraction with respect to IRRF and CIDE withholdings made in 2009 in relation to payments to foreign companies for the chartering of exploration vessels and related services used at blocks BM S-48 and BM-C33, which Repsol Sinopec Brasil operates. The Company, in keeping with the reports provided by its internal and external tax consultants, believes that its approach is both legal and in line with widespread sector practice. This case is being heard at a federal court of second instance.

#### Ecuador

The Ecuador internal revenue service (SRI) has questioned the deduction from income tax of payments for the transportation of crude oil to the Ecuadorian company Oleoducto de Crudos Pesados, S.A. (OCP) under a “Ship or pay” arrangement by several consortia in which Repsol Ecuador, S.A. has ownership interests. The matter has been appealed before Ecuador's National Court of Justice. In an initial ruling, the Court has dismissed the appeal related to the first fiscal year under dispute on account of procedural matters, without elucidating on the substance of the matter.

The SRI has also queried the criteria used to set the benchmark price applicable to sales of its crude to the Bloque 16 consortium in which Repsol Ecuador, S.A. holds a 35% interest. This matter is pending sentencing by the Tax Court.

Elsewhere, OCP, a 29.66% investee of Repsol Ecuador, S.A., is disputing with the government of Ecuador the tax treatment of subordinated debt issued to finance its operations. The National Court handed down a favorable ruling for this company, which the authorities appealed before the Constitutional Court. The Constitutional Court has rendered the National Court ruling null and ordered a new ruling. The government also dismissed the National Court members who ruled in favor of the company. The National Court has issued three rulings that go against the first ruling (i.e., in favor of the interests of the tax authorities) in respect of 2003 to 2006. OCP is taking the opportune steps before the Constitutional Court and is analyzing the possibility of bringing an arbitration case against the government of Ecuador for various reasons.

#### Trinidad & Tobago

In 2015, BP Trinidad & Tobago LLC, a company in which the Repsol Group has a 30% interest along with BP, signed an agreement with the local authorities (“*Board of Inland Revenue*”), resolving most of the matters under dispute in relation to several taxes and for the years 2003-2009: “*Petroleum Profit Tax*” (income tax), “*Supplemental Petroleum Tax*” (production tax), and non-resident personal income tax withholdings and the issues recurring in the years not subject to inspection (2010-2014).

Subsequently, the Administration has issued a new tax assessment requiring additional payments in relation to the 2007-2009 exercises (which were included in the above agreement and therefore were considered reviewed and already closed). BP Trinidad & Tobago LLC filed the appropriate administrative appeal and the Administrative Court admitted such appeal, accepting the BP Trinidad & Tobago LLC’s submission that such periods were already closed. Therefore, Repsol continues expecting that the Administration annul the actions in the near future.

In view of the uncertainty concerning the materialization of the existing tax contingencies associated with lawsuits and other tax matters, at the reporting date, the Group had recognized amounts under provisions that are deemed adequate to cover those tax contingencies.

## **5.10 Legal contingencies**

The information in this section is provided by way of an update with respect to legal contingencies reported on in Note 28 of the 2015 consolidated financial statements as well as disclosing pertinent details about any new contingencies arising the first nine months of 2016, all in respect of the following countries:

### **Argentina**

#### *Claim filed against Repsol and YPF by the Union of Consumers and Users*

On February 4, 2016, Repsol was notified of a sentence condemning YPF to pay ARP 98,208,681 (€7 million) plus interest (the “Sentence”). Although the judgment does not expressly clarify that the lawsuit is dismissed in respect of Repsol, a specific section thereof does absolve it from damages since Repsol was not a shareholder of YPF during the period to which the sentence applies (1993 to 1997). The claimant appealed the Sentence on February 11, 2016; however, the grounds for the appeal do not question the absolution of Repsol, to which end the Sentence is final with respect to Repsol.

### **United States of America**

#### *Passaic River / Newark Bay, United States, Lawsuit.*

The Presiding judge decided on April 5, 2016 to uphold all of the recommendations issued by the Special Master, thereby dismissing in full Occidental Chemical Corporation’s (OCC) suit against Repsol. His decision can be appealed. On June 16, 2016, the Special Master agreed to hear the Motion for Summary Judgment presented by Repsol with regard to its claim against OCC for the \$65 million paid as part of the settlement reached with the State of New Jersey. On June 17, 2016, Maxus filed for bankruptcy protection before the United States Bankruptcy Court for the District of Delaware, also seeking release from its main litigation liability, a petition the Court must rule on.

### **United Kingdom**

#### *Galley*

In August 2012, a portion of the Galley pipeline, in which Repsol Sinopec Resources UK Limited (“RSRUK”, formerly known as Talisman Sinopec Energy UK Limited. “TSEUK”), has a 67.41% interest, suffered an upheaval buckle.

In September 2012, RSRUK filed a claim seeking coverage of the damages and losses sustained as a result of the incident from the insurance company Oleum Insurance Company (“Oleum”), a wholly-owned subsidiary of ROGCI, which in turn owns 51% of RSRUK. In July 2014, TSEUK presented Oleum with a \$351 million claim.

To date, the documentation delivered by RSRUK in support of its claim has proven insufficient to conclude on the existence of coverage under the policy.

RSRUK filed a request for arbitration on August 8, 2016 and Oleum presented its response on September 7. The arbitration hearing will take place in London and the governing law of the damages and business interruption claims will be the law of the State of New York.

#### *Addax arbitration (in relation to the acquisition of Talisman Energy (UK) Limited)*

On July 13, 2015, Addax Petroleum UK Limited (“Addax”) and Sinopec International Petroleum

Exploration and Production Corporation (“Sinopec”), filed a “Notice of Arbitration” against Talisman Energy Inc. (now known as “ROGCI”) and Talisman Colombia Holdco Limited (“TCHL”) in connection with the purchase of 49% shares of TSEUK (now known as “RSRUK”). ROGCI and TCHL filed their response to the Notice of Arbitration on October 1, 2015. On May 25, 2016, Addax and Sinopec filed the Statement of Claim, in which they seek, in the event that their claims were confirmed in their entirety, repayment of their initial investment in RSRUK, which was executed in 2012 through the purchase of 49% of RSRUK from the Canadian group Talisman, together with any additional investment, past or future, in such company, and further for any loss of opportunity, and which they estimate in a total approximate amount of 5,500 million US\$. The Court of Arbitration has decided, among other procedural matters, to schedule the hearing for January 29 to February 16, 2018. Repsol maintains its opinion that the claims included in the Statement of Claim are without merit.

#### **(6) SUBSEQUENT EVENTS**

- The sale to Abastible of the LPG business in Ecuador (Note 5.2.3), which included Repsol's interests in Duragas, S.A. and Servicios de Mantenimiento y Personal, S.A., closed on October 1, 2016 at a price of €33 million, which is equivalent to its carrying amount.
- On October 6, 2016, Petroquiriquire, S.A. (a mixed-ownership company and subsidiary of Petróleos de Venezuela S.A.) and Repsol entered into an agreement designed to reinforce the financial structure of the former which consists of a long-term credit line for up to \$1.200 million.

#### **(7) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH**

These quarterly condensed consolidated financial statements are prepared on the basis of IFRSs, as endorsed by the European Union, and Article 12 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group may not conform with other generally accepted accounting principles in other countries.

## APPENDIX I: SCOPE OF CONSOLIDATION

The principal companies comprising the Repsol Group are itemized in Appendix I of the 2015 consolidated financial statements. The main changes to the Group's composition during the first nine month of 2016 compared with the information provided in the 2015 consolidated financial statements are detailed below<sup>1</sup>:

a) *Business combinations, other acquisitions and acquisitions of interest in subsidiaries, joint ventures and/or associates:*

Entity	Category	Transaction closing date	% of voting rights acquired <sup>(1)</sup>	% of voting rights acquired in the entity post - acquisition
Repsol UK, Ltd.	Constitution	January.2016	100.0%	100.0%
Rocsole OY, Ltd.	Acquisition	January.2016	15.63%	15.63%
Inch Cape Offshore, Ltd.	Part. Increase	January.2016	49.00%	100.00%
Repsol Ductos Colombia, S.A.S.	Constitution	April.2016	100.0%	100.0%
Vung May 156-159 Vietnam B.V. <sup>(2)</sup>	Constitution	June.2016	100.0%	100.0%

<sup>(1)</sup> Corresponds to the percentage of equity in the acquired company.

<sup>(2)</sup> This company has been incorporated into the scope of consolidation during the first half. Previously inactive.

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<sup>1</sup> During the first nine months of the year: i) the registered names of certain entities comprising the Group have changed, most notably among which the joint venture now called Repsol Sinopec Resources UK Limited (formerly, Talisman Sinopec Energy UK Limited, or TSEUK); and ii) the activity of Repsol Exploración México, S.A. de C.V. is now deemed "active". Additionally, see Note 6 for further changes to the September 30, 2016.



*b) Reduction in interest in subsidiaries, joint ventures, and/or associates and other similar transactions:*

Entity	Category	Transaction closing date	% of voting rights sold or retired	% of voting rights acquired in the entity post - acquisition	Income / (Loss) generated (Millions of euros) <sup>(1)</sup>
Moray Offshore Renewables, Ltd.	Disposal	Jan-16	33.36%	0.00%	7
Alsugas Gaviota, S.L.	Liquidation	Mar-16	100.00%	0.00%	-
Talisman Energy Norge AS	Liquidation	Mar-16	100.00%	0.00%	-
TLM O&G (Australia) PTY	Disposal	Apr-16	100.00%	0.00%	5
Beatrice Offshore Windfarm, Ltd.	Disposal	May-16	25.00%	0.00%	Note <sup>(4)</sup>
Inch Cape Offshore, Ltd.	Disposal	May-16	100.00%	0.00%	Note <sup>(4)</sup>
Beatrice Wind, Ltd <sup>(2)</sup>	Disposal	May-16	100.00%	0.00%	Note <sup>(4)</sup>
Wind Farm Energy U.K., Ltd <sup>(3)</sup>	Disposal	May-16	100.00%	0.00%	Note <sup>(4)</sup>
Talisman (Jambi) Ltd.	Liquidation	May-16	100.00%	0.00%	-
Talisman Indonesia Ltd.	Liquidation	May-16	100.00%	0.00%	-
TE Resources S.ar.l.	Liquidation	May-16	100.00%	0.00%	-
Talisman International Business Corporation	Liquidation	Jun-16	100.00%	0.00%	-
TLM Finance Corp	Liquidation	Jun-16	100.00%	0.00%	-
New Santiago Pipelines AG	Absorption	Jun-16	100.00%	0.00%	-
Santiago Pipelines AG	Absorption	Jun-16	100.00%	0.00%	-
Talisman Santiago AG	Absorption	Jun-16	100.00%	0.00%	-
Talisman SO AG	Absorption	Jun-16	100.00%	0.00%	-
TE Colombia Holding S.ar.l	Liquidation	Jun-16	100.00%	0.00%	-
Repsol Exploración Gorontalo B.V.	Liquidation	Jun-16	100.00%	0.00%	-
Repsol Exploración Numfor B.V.	Liquidation	Jun-16	100.00%	0.00%	-
Repsol LNG Offshore B.V.	Liquidation	Jun-16	100.00%	0.00%	1
Repsol Gas del Perú, S.A.	Disposal	Jun-16	99.85%	0.00%	Note <sup>(5)</sup>
Repsol Gas de la Amazonía, S.A.C.	Disposal	Jun-16	99.85%	0.00%	Note <sup>(5)</sup>
Vía Red Hostelería y Distribución, S.L.	Disposal	Jul-16	100.00%	0.00%	0.4
Fortuna (US), Lp.	Liquidation	Jul-16	100.00%	0.00%	-
Repsol Exploration Services, Ltd.	Liquidation	Jul-16	100.00%	0.00%	-
Fusi GP, Llc.	Absorption	Jul-16	100.00%	0.00%	-
Talisman Energy Services, Llc.	Absorption	Jul-16	100.00%	0.00%	-
TE Global Services, Llc.	Absorption	Jul-16	100.00%	0.00%	-
TENOK, S.ar.l.	Absorption	Jul-16	100.00%	0.00%	-
Talisman UK Investments, Ltd.	Liquidation	Aug-16	100.00%	0.00%	-
Papua Petroleum (PNG), Ltd.	Liquidation	Aug-16	100.00%	0.00%	-
Scutum Logistic, S.L.	Part. Decrease	Sep-16	1.36%	15.36%	-
Sociedad Promotora de Bilbao Gas Hub, S.A.	Part. Decrease	Sep-16	3.91%	1.95%	-
Gas Natural SDG, S.A.	Part. Decrease	Sep-16	10.00%	20.26%	235

<sup>(1)</sup> Corresponds to net income before tax.

<sup>(2)</sup> Formerly called Repsol Beatrice, Ltd.

<sup>(3)</sup> Formerly called Repsol Nuevas Energías UK, Ltd.

<sup>(4)</sup> These companies have been sold as part of the sale of the Group's wind farm businesses in the UK to the Chinese group SDIC Power (see Note 3), a transaction that generated a pre-tax gain of €100 million.

<sup>(5)</sup> Sale of the Group's LPG Perú business in (Note 3), a transaction that generated a pre-tax gain of €129 million.

## **APPENDIX II: REGULATORY FRAMEWORK**

The activities of Repsol, S.A. and subsidiaries are subject to extensive regulation. The information provided in this section constitutes an update that reflects significant developments in the regulatory framework applicable to the Group subsequent to the 2015 consolidated financial statements, as detailed in Appendix IV “*Regulatory Framework*”.

### **Spain**

#### *Contributions to the national energy efficiency fund*

Article 7 of Directive 2012/27/EU of the European Parliament and of the Council of October 25, 2012 on energy efficiency makes it binding on member states to justify a quantity of energy savings by 2020, obliging each state to establish energy efficiency obligation schemes such that energy distributors and/or retailers are obliged to achieve a cumulative quantity of energy savings by year-end 2020 by means of annual savings from 2014 on equivalent to 1.5% of their annual energy sales.

Royal Decree-Law 8/2014 and Law 18/2014 transpose this EU Directive into Spanish law by establishing a National Energy Efficiency Fund (NEEF) by virtue of which gas and electricity retailers, oil product wholesalers and liquid petroleum gas wholesalers (although the latter are not considered bound parties under the Directive) are allocated an annual energy saving target at the national level called savings obligations, which is quantified in financial terms.

The creation of a National Fund, which in Spain has been formulated as an alternative to a system of national energy efficiency incentives, is contemplated in Directive 2012/27/EU merely as a supporting or complementary measure.

The successive ministerial orders to Ministry of Industry, Energy and Tourism (IET) stipulating mandatory contributions to the National Energy Efficiency Fund, including, as warranted, related collection letters, are being appealed by the various companies of Repsol Group encompassed by the aforementioned National Fund contribution obligation.

#### *Energy audits*

Spanish Royal Decree 56/2016, of February 12, 2016, transposing Article 8 of Directive 2012/27/EU, of the European Parliament and of the Council, of 25 October 2012, on energy efficiency, in respect of energy audits, energy service and energy audit provider accreditation and the promotion of energy efficiency, took effect in February 2016.

It has the effect of obliging all enterprises that are not SMEs (“large enterprises”) within the European Union to carry out regular energy audits with a view to analyzing whether their energy management is as good as possible and having them establish the opportune energy savings and efficiency opportunities and proposals as warranted.

The bound parties must carry out an energy audit every four years from the date of the last energy audit and it must cover at least 85% of total energy consumption by their universe of facilities located in Spain.

The Group's energy management systems, which are based on the international ISO 50001 standard, are found in the Group's main industrial companies.

## **Venezuela**

So far in 2016, the Venezuelan government has dictated Decrees No. 2,184 published on January 14 in the Extraordinary Official Journal of the Bolivarian Republic of Venezuela No. 6,214 and No. 2,323 published on May 13 in the Extraordinary Official Journal of the Bolivarian Republic of Venezuela No. 6,227, declaring a State of Economic Emergency throughout the entire territory of the Republic and a State of Exception and Economic Emergency, respectively.

These Decrees empower the Executive Branch to adopt the measures it deems opportune to address the exceptional, extraordinary and circumstantial situation facing the Venezuelan economy for an anticipated period of 60 days, starting from its date of publication in the Official Journal, with scope for extension for a period of similar length.

Both Decrees were then revoked by the National Assembly, as was the request made by the President of the Republic to extend the State of Economic Emergency in the case of the first Decree. However, the Supreme Court of Justice's Constitutional Court has since ruled and declared both Decrees pertinent and constitutional.

As a result, the State of Economic Emergency proclaimed on January 14, 2016 was extended on March 11, 2016 such that the Executive Branch could subsequently issue the above-mentioned Decree No. 6,214 when it terminated. With respect to this last Decree, the Constitutional Court has ruled it effective from when it was issued and declared its legitimacy, validity, effectiveness and legal-constitutional standing irrevocably intact, as provided in the Fundamental Text.

Along these same lines, the Presidency of the Bolivarian Republic of Venezuela extended the term established in the above-mentioned Decree No. 2,323 by 60 days by means of Decree No. 2,371 of July 12, 2016, published in the Official Journal of the Venezuelan Republic No. 40,942 on that same date. The National Legislative Assembly then decided, in a session held on July 14, 2016, not to approve the extension of Decree No. 2,323 decreed by the Executive Branch, believing it contrary to the country's interests. Even though the National Assembly did not approve the extension, the Executive Branch has not annulled the Decree, which is expected to be upheld by the Supreme Court of Justice, as has been the case in similar recent cases.

For information regarding the new Exchange Agreements introduced during the reporting period, go to Note 5.5.

## **Bolivia**

Law No. 767 was passed on December 11, 2015 to promote investment in oil and gas exploration and production in Bolivia. This law has since been implemented via Supreme Decree No. 2830, of July 6, 2016, the most important aspects of which are: (i) the grant of an incentive for oil production designed to boost revenue from oil fields; this incentive ranges from \$30 to \$55 per barrel of oil, depending on price terms, production levels and subject to execution of new investments. The incentive applies to oil presenting an API gravity level of less than 55°; (ii) the grant of an incentive for the production of oil condensate in excess of proved reserves, subject to presentation of a development plan committing to new investments. This incentive ranges from \$0 to \$30 per barrel of associated gas condensate and applies until December 2025; (iii) the grant of an incentive for the production of associated natural gas condensates deriving from new discoveries; the incentive ranges from \$30 to 55\$ per barrel. The term for this incentive is set for each project such that it achieves financial break-even using a formula established in the implementing regulations based on an expected net asset value of zero, albeit capped at 25 years; and (iv) the allocation of preferential export markets in the case of dry gas fields.

Elsewhere, Law No. 817 of July 19, 2016 complements article 42 of Law No. 3058 of May 17, 2005, which article had been previously amended by virtue of Law No. 767 of December 11, 2015, permitting YPFB to execute addenda to its Operating Contracts in order to extend their terms such that the reserves so certified can be exploited, subject to undertakings to make new investments in exploration activities (in an amount in excess of \$350 million) or in exploration and related development activities (in an amount in excess of \$500 million), to be executed during a five-year period (by July 2021) and in accordance with an investment plan to be approved by YPFB.

### **APPENDIX III: ACCOUNTING POLICIES**

The accounting criteria and policies used to present the Repsol Group's financial disclosures are outlined in Note 2 of its 2015 consolidated financial statements and are updated in respect of the current reporting period below:

#### *7. Other intangible assets*

##### *(b) Exploration rights and geological and geophysical costs*

The costs of acquiring rights to explore and the costs incurred in conducting geological and geophysical studies during the exploration phase are capitalized under this heading at their acquisition price and incurred cost, respectively. During the exploration and evaluation phase, these costs are not amortized, although they are tested for impairment at least once a year and whenever there are indications of impairment, in keeping with the indicators itemized in IFRS 6 “*Exploration for and evaluation of mineral resources*”. Any impairment losses or the reversal thereof are recognized in profit or loss following the general criteria stipulated in IAS 36 “*Impairment of assets*”. At the end of the exploration and evaluation phase, the amounts capitalized are charged to profit and loss in the event no reserves have been discovered. In the event the exploration work does yield positive results, i.e., a commercially-viable discovery, these costs are reclassified to “*Investment in areas with reserves*” (section 8 c) at their carrying amount at the time this determination is made. These costs are then amortized/depreciated over the estimated commercial life of the field; these charges are calculated as a function of the relationship between actual production during the period and the field's proved reserves at the start of the amortization period.

#### *8. Property, plant and equipment*

##### *c) Recognition of oil and gas exploration and production operations*

Repsol recognizes oil and gas exploration and production operations using accounting policies based on the successful “*efforts method*”. Under this method, the various costs incurred are treated as follows for accounting purposes:

- i. The costs incurred to acquire new interests in areas with proved and unproved reserves (including bonuses, legal costs, etc.) are capitalized within “*Investments in areas with reserves*” when incurred, and allocated to prove or unproved reserves, as appropriate.
- ii. Exploration and appraisal drilling expenses, including exploratory-type stratigraphic test wells, are capitalized under “*Other exploration expenses*” pending determination of whether the well has found proved reserves justifying their commercial development. If it is determined that the well has not found proved reserves, the capitalized well drilling costs are expensed. In the event that reserves are discovered but remain under evaluation for classification as proved, their accounting treatment will depend on the following circumstances:
  - If the area requires additional investments prior to the start of production, the drilling costs continue to be capitalized for as long, and only for as long, as the following conditions are met: (i) the amount of proved reserves found justifies the completion of a productive well if the required investment is carried out; and (ii) the additional exploratory drilling or stratigraphic test wells are either in progress or planned in the very near term. If either of the above two prerequisites is not met, the corresponding exploratory or exploratory-type stratigraphic well drilling costs are recognized in profit or loss.

- Regardless of the circumstances, determination of whether the reserves can be classified as proved must be made within a period of one year from well completion. If such determination has not been made within the prescribed one-year period, the corresponding drilling costs are expensed.

The costs of drilling exploratory-type wells that have yielded a positive find in terms of commercially-viable reserves are reclassified to “*Investments in areas with reserves*”.

iii. Exploration costs other than geological and geophysical costs (see section 7 b), excluding the costs of drilling exploratory-type wells, are recognized in profit and loss when incurred.

iv. Development costs incurred to extract proven oil and gas reserves and to transform and store them (including productive and dry development well drilling costs, platforms, recovery enhancement systems, etc.) are capitalized within “*Investments in areas with reserves*”.

v. The costs to be incurred in the future to abandon and decommission oil and gas fields (environmental, safety, etc.) are calculated field by field and are capitalized at their present value when the related asset is initially recognized; they are recognized within “*Investments in areas with reserves*”. Capitalization of these costs is accounted for by means of a credit to provisions for field decommissioning (see Note 14 of the 2015 consolidated financial statements).

The investments capitalized using the above-listed criteria are amortized/depreciated using the following methodology:

i. Investments corresponding to the acquisition of proved reserves and investments in common facilities are amortized/depreciated over the estimated commercial life of the field; these charges are calculated as a function of the relationship between actual production during the period and the field's proved reserves at the start of the amortization period.

ii. Appraisal and drilling costs incurred to develop and extract oil and gas reserves are amortized over the estimated commercial life of the field; these charges are calculated as a function of the relationship between actual production during the period and the field's proved reserves at the start of the amortization period.

iii. Costs capitalized in respect of unproven reserves or fields under evaluation are not amortized. These investments are, however, tested for impairment at least once a year and whenever there are indications that they may be impaired.

Changes in estimated reserves are factored into amortization charge calculations on a prospective basis.

The recoverable amounts of these assets are compared with their carrying amounts at every reporting date and whenever there is an indication of potential impairment. Any impairment losses, or reversal thereof, resulting from this exercise are recognized within “*Provisions recognized and losses on disposal of non-current assets*” or “*Reversal of provisions and gains on disposal of non-current assets*” in profit or loss, as warranted.

## APPENDIX IV: OTHER DETAILED INFORMATION

### Financial instruments

#### Financial assets

The breakdown of the Group's financial assets by the various asset classes used for financial reporting purposes is provided below:

Millions of euros	September 30, 2016 and December 31, 2015													
	Financial assets held for trading <sup>(3)</sup>		Other financial assets at fair value through profit or loss <sup>(3)</sup>		Financial assets available for sale <sup>(3)</sup>		Loans and receivables <sup>(2)</sup>		Held-to-maturity investments <sup>(2)</sup>		Hedging derivatives <sup>(3)</sup>		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Equity instruments	-	-	-	-	82	82	-	-	-	-	-	-	82	82
Derivatives	1	4	-	-	-	-	-	-	-	-	-	-	1	4
Other financial assets	-	-	56	66	-	-	616	567	-	-	-	-	672	633
<b>Long-term / Non-current</b>	<b>1</b>	<b>4</b>	<b>56</b>	<b>66</b>	<b>82</b>	<b>82</b>	<b>616</b>	<b>567</b>	-	-	-	-	<b>755</b>	<b>719</b>
Derivatives	80	477	-	-	-	-	-	-	-	-	4	1	84	478
Other financial assets	-	-	10	11	-	-	1,270	1,170	3,379	2,439	-	-	4,659	3,620
<b>Short-term / Current</b>	<b>80</b>	<b>477</b>	<b>10</b>	<b>11</b>	-	-	<b>1,270</b>	<b>1,170</b>	<b>3,379</b>	<b>2,439</b>	<b>4</b>	<b>1</b>	<b>4,743</b>	<b>4,098</b>
<b>TOTAL<sup>(1)</sup></b>	<b>81</b>	<b>481</b>	<b>66</b>	<b>77</b>	<b>82</b>	<b>82</b>	<b>1,886</b>	<b>1,737</b>	<b>3,379</b>	<b>2,439</b>	<b>4</b>	<b>1</b>	<b>5,498</b>	<b>4,817</b>

(1) There are also trade receivables included under the balance sheet headings "Other non-current assets", "Trade receivables" and "Other receivables" (at September 30, 2016, €299 million was classified as non-current and €4,086 million as current; at December 31, 2015, €175 million was classified as non-current and €4,254 as current).

(2) These assets' fair value matches with their carrying amount.

(3) In the section titled "Fair value of financial instruments" in this appendix informs about the classification of the financial instruments by hierarchy levels.

#### Financial liabilities

The breakdown of the Group's financial liabilities by the various classes of financial liabilities used for financial reporting purposes is provided below:

Millions of euros	September 30, 2016 and December 31, 2015									
	Financial liabilities held for trading <sup>(2)</sup>		Financial liabilities and other payables		Hedging derivatives <sup>(2)</sup>		Total		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bank borrowings	-	-	1,333	1,543	-	-	1,333	1,543	1,333	1,543
Bonds and other securities	-	-	8,127	8,939	-	-	8,127	8,939	8,651	8,878
Derivatives	3	1	-	-	111	90	114	91	114	91
Other non-current liabilities	-	-	-	9	-	-	-	9	-	9
<b>Long-term / Non-current</b>	<b>3</b>	<b>1</b>	<b>9,460</b>	<b>10,491</b>	<b>111</b>	<b>90</b>	<b>9,574</b>	<b>10,582</b>	<b>10,098</b>	<b>10,521</b>
Bank borrowings	-	-	1,310	1,707	-	-	1,310	1,707	1,310	1,707
Bonds and other securities	-	-	2,381	2,376	-	-	2,381	2,376	2,396	2,380
Derivatives	188	193	-	-	2	5	190	198	190	198
Other current liabilities <sup>(3)</sup>	-	-	3,013	2,921	-	-	3,013	2,921	3,013	2,921
<b>Short-term / Current</b>	<b>188</b>	<b>193</b>	<b>6,704</b>	<b>7,004</b>	<b>2</b>	<b>5</b>	<b>6,894</b>	<b>7,202</b>	<b>6,909</b>	<b>7,206</b>
<b>TOTAL<sup>(1)</sup></b>	<b>191</b>	<b>194</b>	<b>16,164</b>	<b>17,495</b>	<b>113</b>	<b>95</b>	<b>16,468</b>	<b>17,784</b>	<b>17,007</b>	<b>17,727</b>

- (1) There are also finance lease obligations at September 30, 2016 and December 31, 2015, specifically €1,476 million and €1,540 million registered within “*Other non-current liabilities*”, respectively, and €194 million and €206 million within “*Other payables*”, respectively.
- (2) In the section titled “Fair value of financial instruments” in this appendix informs about the classification of the financial instruments by hierarchy levels.
- (3) Corresponds mainly to the loan extended by Repsol Sinopec Brasil S.A. through its subsidiary Repsol Sinopec Brasil B.V.

### *Fair value of financial instruments*

The classification of financial instruments recognized in the financial statements at fair value at September 30, 2016 and December 31, 2015, is as follows:

Millions of euros	September 30, 2016 and December 31, 2015							
	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Financial assets</b>								
Financial assets held for trading	2	298	79	183	-	-	81	481
Other financial assets at fair value through profit or loss	66	77	-	-	-	-	66	77
Financial assets available held for sale <sup>(1)</sup>	1	1	-	-	-	-	1	1
Hedging derivatives	-	-	4	1	-	-	4	1
<b>Total</b>	<b>69</b>	<b>376</b>	<b>83</b>	<b>184</b>	<b>-</b>	<b>-</b>	<b>152</b>	<b>560</b>
<b>Financial liabilities</b>								
Financial liabilities held for trading	90	4	101	190	-	-	191	194
Hedging derivatives	-	-	113	95	-	-	113	95
<b>Total</b>	<b>90</b>	<b>4</b>	<b>214</b>	<b>285</b>	<b>-</b>	<b>-</b>	<b>304</b>	<b>289</b>

Financial instruments recognized at fair value are classified at different levels, as described below:

Level 1: Valuations based on a quoted price in an active market for an identical instrument.

Level 2: Valuations based on a quoted price in an active market for similar financial assets or based on other valuation techniques that rely on observable market inputs.

Level 3: Valuations based on inputs that are not directly observable in the market.

- (1) Does not include €81 million at September 30, 2016 and December 31, 2015 corresponding to equity investments in companies that are measured at acquisition cost under IAS 39.

The valuation techniques used for instruments classified under level 2, in accordance with accounting regulations, are based on the income approach, which entail the discounting to present value of future cash flows, either known or estimated, using discount curves from the market reference interest rates (in the case of derivative instruments, estimated using implicit forward curves offered in the market), including adjustments for credit risk based on the life of the instruments. In case of options, price-setting models based on the Black & Scholes formula is used.

The most significant variables for valuing financial instruments vary depending on the type of instrument, but fundamentally include: exchange rates (spot and forward), interest rate curves, counterparty risk curves, prices of equity securities, commodities prices curves and the volatilities of all the aforementioned factors. In all instances the market data are obtained from reputed information providers or correspond to the prices published by official bodies.



## Breakdown by segment

The breakdown of revenue between third-party revenue and inter-segment revenue is provided below:

Segments	Millions of euros					
	Operating revenue from customers		Operating revenue from inter segment sales		Total operating revenue	
	M9 2016	M9 2015	M9 2016	M9 2015	M9 2016	M9 2015
Upstream	2,930	2,711	589	785	3,519	3,496
Downstream	22,932	28,986	18	8	22,950	28,994
Corporation and other	-	2	3	1	3	3
(-) Inter-segment adjustments and eliminations of operating income	1	(1)	(610)	(794)	(609)	(795)
<b>TOTAL</b>	<b>25,863</b>	<b>31,698</b>	<b>-</b>	<b>-</b>	<b>25,863</b>	<b>31,698</b>

The reconciliation of other metrics disclosed in Note 4.4 with the IFRS-EU disclosures for the first nine months of 2016 and 2015 is as follows:

	Millions of euros			
	Q3 2016	Q3 2015	09/30/2016	09/30/2015
<b>Adjustments operating revenue<sup>(1)</sup></b>	<b>9,318</b>	<b>10,704</b>	<b>25,863</b>	<b>31,698</b>
<i>Adjustments for joint ventures or other companies managed such as:</i>				
Upstream	(388)	(476)	(1,159)	(1,310)
Downstream	(9)	(18)	(24)	(58)
Corporation and other		-		(1)
<b>IFRS-EU operating revenue<sup>(2)</sup></b>	<b>8,921</b>	<b>10,210</b>	<b>24,680</b>	<b>30,329</b>
<b>Adjustments operating investments<sup>(1)</sup></b>	<b>(1,645)</b>	<b>695</b>	<b>(607)</b>	<b>10,696</b>
<i>Adjustments for joint ventures or other companies managed as such and other<sup>(3)</sup>:</i>				
Upstream	(113)	(303)	(488)	(872)
Downstream	165	272	164	313
Corporation and other	32	18	11	14
<b>IFRS-EU operating investments (net)<sup>(4)</sup></b>	<b>(1,561)</b>	<b>682</b>	<b>(920)</b>	<b>10,151</b>
<b>Capital employed<sup>(1)</sup></b>	<b>n.a</b>	<b>n.a</b>	<b>39,170</b>	<b>40,702</b>
<i>Adjustments for joint ventures or other companies managed as such:</i>				
Upstream	n.a	n.a	864	1,304
Downstream	n.a	n.a	13	6
Corporation and other	n.a	n.a	-	-
<b>Capital employed according to the Balance Sheet</b>	<b>n.a</b>	<b>n.a</b>	<b>40,047</b>	<b>42,012</b>

<sup>(1)</sup> Figures compiled in keeping with the Group reporting model described in Note 2.6 "Operating segment disclosures".

<sup>(2)</sup> The IFRS-EU revenue figure corresponds to the sum of the "Sales" and "Services rendered and other income" headings on the consolidated income statement.

<sup>(3)</sup> 'Other' corresponds to the timing difference between cash flows and accruals.

<sup>(4)</sup> Corresponds to "Proceeds from divestments" plus "Payments for investments" in the consolidated statements of cash flows prepared under IFRS-EU; it does not include cash inflows or outflows corresponding to "Other financial assets".

## APPENDIX V: ALTERNATIVE PERFORMANCE MEASURES

Repsol's financial information contains indicators and measures prepared in accordance with applicable financial information, as well as other measures prepared in accordance with the Group's<sup>1</sup> Reporting Model defined as Alternative Performance Measures (APMs). APMs are measures which are "adjusted" compared to those presented as IFRS-EU or with Supplementary Information on Oil and Gas Exploration and Production Activities (hereinafter, "E&P<sup>2</sup> Information"), and therefore should be considered by the reader in addition to, but not instead of the GAAP information.

APM are highly useful for users of financial information as they are the measures employed by Repsol's Management to evaluate its financial performance, cash flows, or its financial position when making operational or strategic decisions for the Group.

For the APM reconciliations corresponding to the first and second quarters of 2016, see Appendix I of the Interim Management Report corresponding to the first half of 2016.

### 1. Financial performance measures

#### *Adjusted net income*

Adjusted net income is the key financial performance measure which Management (the E&P Corporate Executive Committee, and Downstream Executive Committee) consults when making decisions in accordance with IFRS 8 "Operating segments".

Repsol presents its segment results including joint ventures or other companies which are jointly managed, in accordance with the Group's investment percentage, considering its operationing and economic indicators within the same perspective and degree of detail as those for companies consolidated under the full consolidation method. In this manner, the Group considers that the nature of its businesses and the manner results are analyzed as part of the decision-making process are correctly reflected.

Adjusted net income is calculated as the **Result from continuing operations at Current Cost of Supply** (*Current Cost of Supply*, or CCS<sup>3</sup>), net of taxes and the result from investments minority interests. It does not include certain income and losses ("**Special items**") and the **Inventory effect**. **Financial income** corresponds to the "*Corporation and others' Adjusted net income*".

Adjusted net income is a useful APM for investors in order to be able to evaluate the performance of operating segments while permitting increased comparability with Oil & Gas sector companies using different inventory measurement methods (see the following section).

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<sup>1</sup> See Note 2.6.

<sup>2</sup> The E&P Information, which is compiled and disclosed by the Group annually, is prepared in accordance with the principles generally accepted in the oil and gas industry and, specifically, is based on the disclosure criteria outlined in Topic 932 issued by the Financial Accounting Standards Board (FASB).

<sup>3</sup> The Current Cost of Supply (CCS) is commonly used in this industry to present the results of Downstream businesses which must work with huge inventories subject to continual price fluctuations is not a commonly-accepted European accounting regulation, yet does enable the comparability with other sector companies as well as monitoring businesses independently of the impact of price variations on their inventories. Due to the above, the adjusted net income does not include the Equity Effect.

### ***Inventory Effect***

This is the difference between ***the Result from continuing operations at Current Cost of Supply (CCS)*** and the result calculated as the Average Weighted Cost (AWC, which is an inventory valuation method used by the Company to determine its results in accordance with European accounting regulations). It only affects the *Downstream* segment, in that for the ***Current Cost of Supply***, the cost of volume sold during the period is determined in accordance with supply costs, and production during the year. Apart from the above effect, the ***Inventory effect*** includes other adjustments to the valuation of inventories (write-offs, economic hedges) and is presented net of taxes and minority interests. Repsol management considers that this measure is useful for investors, considering the significant variations arising in the prices of inventory between periods.

The AWC is a generally-accepted European accounting method which measures inventories, in that it contemplates purchase prices and historic production costs, valuing inventory at the lower between said cost and its market value.

### ***Special items***

Significant items of which separate presentation is considered convenient to easily monitor the ordinary management of business operation. It includes capital gains/losses arising from divestitures, restructuring costs, impairments, and provisions for risks and expenses. Special items are presented net of taxes and minority interests.

Section 4.3 “*Results*” includes the Special Items recognized in the third quarters of 2016 and 2015. The following are the Special Items corresponding to the first nine months of 2016 and 2015.

<i>Millions of euros</i>	<b>Specific items accumulated for the first nine months</b>							
	<b>Upstream</b>		<b>Downstream</b>		<b>Corporation</b>		<b>TOTAL</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Divestments	(13)	41	445	324	201	(16)	633	349
Workforce restructuring charges	(59)	(10)	(143)	(3)	(168)	(29)	(370)	(42)
Impairment	(21)	(237)	(13)	(284)	-	(7)	(34)	(527)
Provisions and other	(403)	(15)	(22)	10	96	(13)	(329)	(18)
<b>TOTAL</b>	<b>(496)</b>	<b>(221)</b>	<b>267</b>	<b>46</b>	<b>129</b>	<b>(64)</b>	<b>(100)</b>	<b>(238)</b>

The following is a reconciliation of the Adjusted Income under the Group's reporting model under IFRS-EU.

<i>€ Millions</i>	<b>Accumulative results first nine months</b>												
	<b>ADJUSTMENTS</b>											<b>Profit/loss under EU- IFRS</b>	
	<b>Adjusted Result</b>		<b>Joint arrangements reclassification</b>		<b>Special Items</b>		<b>Inventory effect <sup>(2)</sup></b>		<b>Total adjustments</b>				
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating income	1,503 <sup>(1)</sup>	1,620 <sup>(1)</sup>	(116)	(89)	30	(539)	1	(494)	(85)	(1,122)		1,418	498
Financial result	(385)	233	(5)	(13)	102	22	-	-	97	9		(288)	242
Income from equity affiliates	294	340	(42)	(105)	-	-	-	-	(42)	(105)		252	235
<b>Net income before tax</b>	<b>1,412</b>	<b>2,193</b>	<b>(163)</b>	<b>(207)</b>	<b>132</b>	<b>(517)</b>	<b>1</b>	<b>(494)</b>	<b>(30)</b>	<b>(1,218)</b>		<b>1,382</b>	<b>975</b>
Income tax	(161)	(730)	163	207	(233)	279	(1)	140	(71)	626		(232)	(104)
<b>Net income from continuing operations</b>	<b>1,251</b>	<b>1,463</b>	<b>-</b>	<b>-</b>	<b>(101)</b>	<b>(238)</b>	<b>-</b>	<b>(354)</b>	<b>(101)</b>	<b>(592)</b>		<b>1,150</b>	<b>871</b>
Income attributed to minority interests	(27)	(64)	-	-	1	-	(4)	25	(3)	25		(30)	(39)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT</b>	<b>1,224</b>	<b>1,399</b>	<b>-</b>	<b>-</b>	<b>(100)</b>	<b>(238)</b>	<b>(4)</b>	<b>(329)</b>	<b>(104)</b>	<b>(567)</b>		<b>1,120</b>	<b>832</b>

(1) Result from continuing operations at replacement cost.

(2) The inventory effect represents an adjustment to "Consumption of raw materials and other consumables" and "Changes in inventory of finished goods and work in progress" on the income statement under IFRS-EU.

<i>€ Millions</i>	<b>Third Quarter Results</b>												
	<b>ADJUSTMENTS</b>											<b>Profit/loss under EU- IFRS</b>	
	<b>Adjusted Result</b>		<b>Joint arrangements reclassification</b>		<b>Special items</b>		<b>Inventory effect <sup>(2)</sup></b>		<b>Total adjustments</b>				
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating income	506 <sup>(1)</sup>	511 <sup>(1)</sup>	(8)	13	249	(303)	(7)	(406)	234	(696)		740	(185)
Financial result	(123)	(223)	(89)	24	120	-	-	-	31	24		(92)	(199)
Income from equity affiliates	88	105	(48)	(128)	-	-	-	-	(48)	(128)		40	(23)
<b>Net income before tax</b>	<b>471</b>	<b>393</b>	<b>(145)</b>	<b>(91)</b>	<b>369</b>	<b>(303)</b>	<b>(7)</b>	<b>(406)</b>	<b>217</b>	<b>(800)</b>		<b>688</b>	<b>(407)</b>
Income tax	(157)	(206)	145	91	(188)	195	2	115	(41)	401		(198)	195
<b>Net income from continuing operations</b>	<b>314</b>	<b>187</b>	<b>-</b>	<b>-</b>	<b>181</b>	<b>(108)</b>	<b>(5)</b>	<b>(291)</b>	<b>176</b>	<b>(399)</b>		<b>490</b>	<b>(212)</b>
Income attributed to minority interests	(7)	(28)	-	-	(1)	-	(1)	19	(2)	19		(9)	(9)
<b>TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT</b>	<b>307</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>180</b>	<b>(108)</b>	<b>(6)</b>	<b>(272)</b>	<b>174</b>	<b>(380)</b>		<b>481</b>	<b>(221)</b>

(1) Result from continuing operations at replacement cost.

(2) The inventory effect represents an adjustment to "Consumption of raw materials and other consumables" and "Changes in inventory of finished goods and work in progress" on the income statement under IFRS-EU.

**EBITDA:**

**EBITDA** is defined as "Earnings Before Interest, Taxes, Depreciation, and Amortization", and is a financial indicator which determines the operating margin of a company prior to deducting interest, taxes, impairments, restructuring costs, and amortization. Since it does not include financial and tax indicators or accounting expenses not involving cash outflow, it is used by Management to evaluate the company's results over time, thereby making comparisons with other Oil & Gas sector companies a more straightforward exercise.

**EBITDA** is calculated as Operating Income + Amortization + Impairments + Restructuring costs as well as other items which do not represent cash entry or outflows from transactions (capital gains/losses from divestitures, provisions, etc.). Operating income corresponds to the result from continuing operations at average weighted average costs (AWC). In cases in which *the Result from continuing operations* at *Current Cost of Supply* (CCS) is used, it is considered **EBITDA CCS**.

	First nine months							
	Group reporting model		Reclass, joint ventures and other		Inventory effect		Cash Flow Statement EU-IFRS <sup>(1)</sup>	
	2016	2015	2016	2015	2016	2015	2016	2015
EBITDA	3,558	3,394	(555)	(528)	-	-	3,003	2,866
EBITDA CCS	3,557	3,888	(555)	(528)	1	(494)	3,003	2,866

<sup>(1)</sup> Corresponds to "Pre-tax profit" and "Result adjustments" on the consolidated Cash Flow Statement prepared under IFRS-EU.

	Third Quarter							
	Group reporting model		Reclass, joint ventures and other		Inventory effect		Cash Flow Statement EU-IFRS <sup>(1)</sup>	
	2016	2015	2016	2015	2016	2015	2016	2015
EBITDA	1,141	1,011	(134)	(134)	-	-	1,007	877
EBITDA CCS	1,148	1,417	(134)	(134)	(7)	(406)	1,007	877

<sup>(1)</sup> Corresponds to "Pre-tax profit" and "Result adjustments" on the consolidated Cash Flow Statement prepared under IFRS-EU.

## **ROACE:**

This APM is used by Repsol Management to evaluate the capacity of its operating assets to generate profit, and therefore measures invested capital (equity and debt).

ROACE is calculated as: (operating results adjusted for joint ventures outcomes excluding “*Special items*” + Income taxes + Recurrent results from investees) / (Capital employed during the continuing operations period). *Capital employed* measures own and external capital invested in the company, and corresponds to Total Equity + *Net debt*. It includes that which corresponds to joint ventures or other companies whose operations are generated as such.

	2015 <sup>(1)</sup>	M9 2016
<b>NUMERATOR</b>		
<b>Operating profit EU-IFRS</b>	<b>(2,697)</b>	<b>1,418</b>
Adjustment joint ventures	(441)	116
Adjustment special items	4,219	(30)
Income tax <sup>(2)</sup>	(304)	(300)
Share of profit (loss) of entities accounted for using the equity method - net of dividends	475	294
<b>I. ROACE result at average weighted cost</b>	<b>1,251</b>	<b>1,498</b>
<b>DENOMINATOR</b>		
Total equity	28,768	29,182
Net financial debt	11,934	9,988
<b>Capital employed at year end</b>	<b>40,702</b>	<b>39,170</b>
<b>II. Average capital employed <sup>(4)</sup></b>	<b>41,079</b>	<b>39,726</b>
<b>CCS ROACE (I/II)</b>	<b>3.0</b>	<b>5.0</b>

<sup>(1)</sup> Real figure for 2015.

<sup>(2)</sup> Does not include income tax corresponding to financial results.

<sup>(3)</sup> Figure annualized by extrapolating data for the year.

<sup>(4)</sup> Corresponds to the average balance of capital employed at the beginning and end of the year.

## **2. Cash flow measures**

### ***Adjusted Cash Flow, Free Cash Flow and Liquidity:***

This APM measures cash entries and outflows during the year. *Adjusted Cash Flow* is the net accumulation of liquid assets during a certain period, including that which corresponds to joint ventures or other jointly-controlled entities, and as such, is the key indicator used for evaluating cash flow generation for the year by Group Management. It is calculated as the sum of cash flows from operating activities, from investments, and financing arrangements.

*Free Cash Flow* measures cash flow generation from operating and investment activities, and is quite useful for evaluating the funds available for paying shareholder dividends, and debt service payments.

The following is a reconciliation of **Adjusted Cash Flow** and **Free Cash Flow** with the consolidated statements of cash flow prepared under IFRS-EU.

	Accumulative first nine months					
	Adjusted Cash Flow		Joint Arrangements reclassification and others		Cash Flow Statement IFRS-EU	
	2016	2015	2016	2015	2016	2015
I. Cash flows from / (used in) operating activities	2,430	3,060	(188)	(331)	2,242	2,729
II. Cash flows from / (used in) investing activities	462	(10,516)	382	1,675	844	(8,841)
<b>Free cash flow (I+II)</b>	<b>2,892</b>	<b>(7,456)</b>	<b>194</b>	<b>1,344</b>	<b>3,086</b>	<b>(6,112)</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(2,089)	4,799	(58)	(1,306)	(2,147)	3,493
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>803</b>	<b>(2,657)</b>	<b>136</b>	<b>38</b>	<b>939</b>	<b>(2,619)</b>
Cash and cash equivalents at the beginning of the period	2,769	5,027	(321)	(389)	2,448	4,638
Cash and cash equivalents at the end of the period	3,572	2,370	(185)	(351)	3,387	2,019

(1) Includes payments for dividends and payments on other equity instruments, interest payments, other proceeds from/ (payments for) financing activities, proceeds from / (payments for) equity instruments , proceeds from / (payments for) financial liabilities and the exchange rate fluctuations effect.

	Third Quarter					
	Adjusted Cash Flow		Reclassification Joint Ventures and others		Cash Flow Statement IFRS-EU	
	2016	2015	2016	2015	2016	2015
I. Cash flows from / (used in) operating activities	658	1,583	(17)	(152)	641	1,431
II. Cash flows from / (used in) investing activities	1,459	(1,016)	127	226	1,586	(790)
<b>Free cash flow (I+II)</b>	<b>2,117</b>	<b>567</b>	<b>110</b>	<b>74</b>	<b>2,227</b>	<b>641</b>
III. Cash flows from / (used in) financing activities and others <sup>(1)</sup>	(990)	(712)	(75)	(2)	(1,065)	(714)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,127</b>	<b>(145)</b>	<b>35</b>	<b>72</b>	<b>1,162</b>	<b>(73)</b>
Cash and cash equivalents at the beginning of the period	2,445	2,515	(220)	(423)	2,225	2,092
Cash and cash equivalents at the end of the period	3,572	2,370	(185)	(351)	3,387	2,019

(1) Includes payments for dividends and payments on other equity instruments, interest payments, other proceeds from/ (payments for) financing activities, proceeds from / (payments for) equity instruments , proceeds from / (payments for) financial liabilities and the exchange rate fluctuations effect.

The Group measures liquidity as the total of “Cash and cash equivalents” and undrawn committed lines of credit at year end which correspond to loans granted by financial institutions which may be drawn down by the company in instalments, the amount, and the remaining terms of the agreement.

	September 30, 2016					
	Group Reporting Model		Joint arrangements, reclassification and others		IFRS-EU	
	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	3,572	2,372	(185)	(353)	3,387	2,019
Undrawn credit lines	4,347	6,111	0	0	4,347	6,111
<b>Liquidity</b>	<b>7,919</b>	<b>8,483</b>	<b>(185)</b>	<b>(353)</b>	<b>7,734</b>	<b>8,130</b>

### **Net Operating Investments:**

Group management uses this APM to measure each period’s investing effort, as well as its assignment by businesses segment, and corresponds to net investments of divestments made by different Group businesses. It includes that which corresponds to joint ventures or other companies whose operations are generated as such.

	Accumulative First nine months					
	Net operating investments		Reclass., joint ventures and other		Cash flow statement IFRS -EU <sup>(1)</sup>	
	2016	2015	2016	2015	2016	2015
Upstream	1,725	10,452	(488)	(872)	1,237	9,580
Downstream	(454)	161	164	313	(290)	474
Corporation & Other	(1,878)	83	11	14	(1,867)	97
<b>TOTAL</b>	<b>(607)<sup>(2)</sup></b>	<b>10,696</b>	<b>(313)</b>	<b>(545)</b>	<b>(920)</b>	<b>10,151</b>

(1) This corresponds to “Proceeds from divestments” and “Payments on investments” on the consolidated statement of cash flows prepared under IFRS-EU, and does not include items corresponding to “Other financial assets.”

(2) Gross capital expenditure amounted to €2,495 million in the first nine months of 2016.

	Third Quarter					
	Net operating investments		Reclass., joint ventures and other		Cash flow statement IFRS -EU <sup>(1)</sup>	
	2016	2015	2016	2015	2016	2015
Upstream	444	803	(112)	(303)	332	500
Downstream	(196)	(122)	165	272	(31)	150
Corporation & Other	(1,893)	14	31	18	(1,862)	32
<b>TOTAL</b>	<b>(1,645)<sup>(2)</sup></b>	<b>695</b>	<b>84</b>	<b>(13)</b>	<b>(1,561)</b>	<b>682</b>

(1) This corresponds to “Proceeds from divestments” and “Payments on investments” on the consolidated statement of cash flows prepared under IFRS-EU, and does not include items corresponding to “Other financial assets.”

(2) Gross capital expenditure amounted to €633 million in the third quarter of 2016.

On certain occasions, operating investments are known as CAPEX (“Capital Expenditures”), which is the case of the Upstream segment, and may therefore be presented including general and administration expenses (G&A).

### **3. Financial position measures**

#### **Debt and financial position ratios**

**Net Debt** is the main APM used by management to measure the Company’s level of debt. It is comprised of financial liabilities less financial assets, cash and cash equivalents, and the effect arising from net market valuation of financial derivative (ex - exchange rates). It also includes the net debt corresponding to joint ventures and other companies operationally managed as such.



	Net Debt		Joint arrangements reclassification and others <sup>(1)</sup>		Figure according to IFRS-EU balance sheet	
	sep-16	dec-15	sep-16	dec-15	sep-16	dec-15
<b>Non-current assets</b>						
Non-current financial instruments <sup>(2)</sup>	79	121	593	512	672	633
<b>Current assets</b>						
Other current financial assets	26	118	1,261	1,119	1,287	1,237
Cash and cash equivalents	3,574	2,771	(187)	(323)	3,387	2,448
<b>Non-current liabilities</b> <sup>(3)</sup>						
Non-current financial debt	(9,627)	(10,716)	56	135	(9,571)	(10,581)
<b>Non-current liabilities</b> <sup>(3)</sup>						
Current financial liabilities	(4,150)	(4,320)	(2,601)	(2,753)	(6,751)	(7,073)
<b>Items not included on the balance sheet</b>						
Net mark to market valuation of financial derivatives (ex: exchange rate) <sup>(4)</sup>	110	92	-	-	110	92
<b>NET DEBT</b>	<b>(9,988)</b>	<b>(11,934)</b>			<b>(10,866)</b>	<b>(13,244)</b>

- (1) Mainly includes the net financing of the Repsol Sinopec Brazil Group, broken down in the following sections:  
*December 2015*: (cash and cash equivalents of €1 million and current financial liabilities as a result of an intra-group loan of €2,819 million, less a €300 million third-party loan).  
*September 2016*: (cash and cash equivalents of €0 million and current financial liabilities as a result of an intra-group loan of €2,772 million, less a €393 million third-party loan).
- (2) Corresponds to the consolidated balance sheet heading, “Non-current financial assets” (but does not include available-for-sale financial assets).
- (3) Does not include finance lease obligations.
- (4) The net mark to market value of financial derivatives different from exchange rate derivatives has been eliminated from this section.

**Gross Debt** is a measure used to analyze the Group's solvency; it includes its financial liabilities and the net fair value of its exchange rate derivatives.

	Net Debt		Joint arrangements reclassification and others <sup>(1)</sup>		Figure according to IFRS-EU balance sheet	
	sep-16	dec-15	sep-16	dec-15	sep-16	dec-15
Current financial liabilities	(4,103)	(4,252)	(2,601)	(2,752)	(6,704)	(7,004)
Net valuation at the market rates of financial derivative, such as current exchange rate	(32)	(1)	-	-	(32)	(1)
<b>Current gross debt</b>	<b>(4,135)</b>	<b>(4,253)</b>	<b>(2,601)</b>	<b>(2,752)</b>	<b>(6,736)</b>	<b>(7,005)</b>
Non-current financial liabilities	(9,516)	(10,626)	55	135	(9,461)	(10,491)
<b>Non-current gross debt</b>	<b>(9,516)</b>	<b>(10,626)</b>	<b>55</b>	<b>135</b>	<b>(9,461)</b>	<b>(10,491)</b>
<b>TOTAL GROSS DEBT</b>	<b>(13,651)</b>	<b>(14,879)</b>	<b>(2,546)</b>	<b>(2,617)</b>	<b>(16,197)</b>	<b>(17,497)</b>

The following ratios are based on **Debt** and are used by Group management to evaluate leverage ratios as well as Group solvency.

The **Leverage ratio** corresponds to **Net Debt** divided by **Capital employed** at year end. This ratio can be used to determine the financial structure and degree of indebtedness with regard to capital contributed by shareholders and entities which provide financing. It is the chief measure used to evaluate and compare the Company's financial position with others in the Oil & Gas sector.

**Hedging instruments** correspond to **Net debt** divided by **EBITDA CCS**, and makes it possible to evaluate the company's capacity for repaying external financing over a number of years (x times), as well as to compare it to similar sector companies.

The **Solvency ratio** is calculated as **Liquidity** (section 2 of this Appendix) divided by **Current Gross debt**, and is used to determine the number of times the Group may handle its current debt using its existing liquidity.