

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS**

For the three-month period ended March 31, 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 March 31, 2016 and December 31, 2015

ASSETS	Note	Millions of euros	
	2.3	03/31/2016	12/31/2015
Intangible Assets:		4,526	4,765
a) Goodwill	4.1	2,919	3,099
b) Other intangible assets		1,607	1,666
Property, plant and equipment	4.1	27,387	28,439
Investment property		26	26
Investment accounted for using the equity method	4.2	11,676	11,798
Non-current financial assets	4.4	719	715
Deferred tax assets		4,687	4,689
Other non-current assets		221	179
NON-CURRENT ASSETS		49,242	50,611
Non current assets held for sale	4.3	586	262
Inventories		2,760	2,853
Trade and other receivables:		4,782	5,680
a) Trade receivables		2,404	2,607
b) Other receivables		1,652	2,060
c) Income tax assets		726	1,013
Other current assets		264	271
Other current financial assets	4.4	1,205	1,237
Cash and cash equivalents	4.4	2,508	2,448
CURRENT ASSETS		12,105	12,751
TOTAL ASSETS		61,347	63,362

Notes 1 to 6 are an integral part of this consolidated balance sheet at March 31, 2016.

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

LIABILITIES AND EQUITY	<u>Note</u>	<u>Millions of euros</u>	
	<u>2.3</u>	<u>03/31/2016</u>	<u>12/31/2015</u>
NET EQUITY			
Issued share capital		1,442	1,442
Share premium		6,428	6,428
Reserves		259	259
Treasury shares and own equity instruments		(255)	(248)
Retained earnings and other reserves		18,253	19,673
Profit attributable to equity holders of the parent	3.3	434	(1,408)
Dividends and remunerations	4.5	(228)	(228)
Other equity instruments		996	1,017
EQUITY		27,329	26,935
Financial assets available for sale		3	3
Hedge transactions		(241)	(227)
Translation differences		1,060	1,966
ADJUSTMENTS FOR CHANGES IN VALUE		822	1,742
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT AND OTHER HOLDERS OF EQUITY INSTRUMENTS		28,151	28,677
MINORITY INTERESTS		208	228
TOTAL EQUITY	4.5	28,359	28,905
Grants		7	7
Non-current provisions		5,704	5,827
Non-current financial liabilities:	4.4	11,001	10,581
a) Bank borrowings, bonds and other securities		10,891	10,491
b) Other financial liabilities		110	90
Deferred tax liabilities		1,520	1,623
Other non-current liabilities		1,873	1,942
NON-CURRENT LIABILITIES		20,105	19,980
Liabilities related to non-current assets held for sale	4.3	104	8
Current provisions		1,276	1,377
Current financial liabilities:	4.4	6,554	7,073
a) Bank borrowings, bonds and other securities		6,494	7,004
b) Other financial liabilities		60	69
Trade payables and other payables:		4,949	6,019
a) Trade payables		2,030	1,799
b) Other payables		2,694	3,975
c) Current income tax liabilities		225	245
CURRENT LIABILITIES		12,883	14,477
TOTAL LIABILITIES AND EQUITY		61,347	63,362

Notes 1 to 6 are an integral part of this consolidated balance sheet at March 31, 2016.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated income statement for the interim periods ended March 31, 2016 and 2015

	Note	Millions of euros	
		03/31/2016	03/31/2015
Sales		7,637	9,294
Services rendered and other income		30	36
Changes in inventories of finished goods and work in progress inventories		82	(29)
Income from reversals of impairment losses and gains on disposal of non-current assets	4.3	80	148
Other operating income		339	626
OPERATING REVENUE		8,168	10,075
Supplies		(5,318)	(6,989)
Personnel expenses		(542)	(455)
Other operating expenses		(1,372)	(1,647)
Depreciation and amortization of non-current assets		(575)	(676)
Impairment losses recognised and losses on disposal of non-current assets		(19)	(13)
OPERATING EXPENSES		(7,826)	(9,780)
OPERATING INCOME		342	295
Finance income		44	32
Finance expenses		(182)	(134)
Changes in the fair value of financial instruments		(13)	1,102
Net exchange gains/ (losses)		43	(360)
Impairment and gains/ (losses) on disposal of financial instruments	4.4	50	(6)
FINANCIAL RESULT		(58)	634
Share of results of companies accounted for using the equity method after taxes	4.2	159	73
NET INCOME BEFORE TAX		443	1,002
Income tax	4.6	(2)	(236)
NET INCOME FROM THE PERIOD		441	766
Net income attributable to minority interests		(7)	(5)
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT		434	761
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	4.5.3	Euros	Euros
Basic		0.30	0.53
Diluted		0.30	0.53

Notes 1 to 6 are an integral part of this consolidated income statement at March 31, 2016.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated statement of recognized income and expenses for the interim periods ended March 31,
2016 and 2015

	Millions of euros	
	<u>03/31/2016</u>	<u>03/31/2015</u>
CONSOLIDATED NET INCOME FOR THE PERIOD (from the Consolidated Income Statement)	441	766
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY:		
From actuarial gains and losses and other adjustments	(7)	(1)
Total items not reclassified to the income statement	(7)	(1)
From measurement of financial assets available for sale	-	3
From cash flow hedges	(21)	(200)
Translation differences	(860)	1,709
Entities accounted for using the equity method	(44)	160
Tax effect	(3)	8
Total items reclassified to the income statement	(928)	1,680
TOTAL	(935)	1,679
AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT:		
From measurement of financial assets available for sale	-	6
From cash flow hedges	6	(21)
Translation differences	(3)	1
Entities accounted for using the equity method	3	-
Tax effect	-	7
TOTAL	6	(7)
TOTAL RECOGNIZED INCOME/ (EXPENSES)	(488)	2,438
a) Attributable to the parent company	(492)	2,420
b) Attributable to minority interests	4	18

Notes 1 to 6 are an integral part of this consolidated statement of recognizes income and expenses at March 31, 2016.

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

Consolidated statement of changes in equity for the interim periods ended March 31, 2016 and March 31, 2015

Millions of euros	Equity attributable to equity holders of the parent								
	Capital and reserves								
	Issued share capital	Share premium and reserves	Treasury shares and own equity instruments	Total net income attributable to the parent	Other equity instruments	Adjustments for changes in value	Total equity attributable to the parent	Minority interests	Total Equity
Closing balance at 12/31/2014	1,375	24,642	(127)	1,612	-	435	27,937	217	28,154
Adjustments (see note 2.3)	-	328	-	-	-	32	360	-	360
Initial adjusted balance	1,375	24,970	(127)	1,612	-	467	28,297	217	28,514
Total recognized income/ (expense)	-	11	-	(1,408)	-	1,283	(114)	56	(58)
Transactions with shareholders or owners									
Increase/ (decrease) of share capital	67	(67)	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	-	-
Transactions with treasury shares or own equity instruments (net)	-	3	(121)	-	-	-	(118)	-	(118)
Increases/ (decreases) due to changes in the scope of consolidation	-	49	-	-	-	18	67	(45)	22
Other transactions with partners and owners	-	(471)	-	-	-	-	(471)	-	(471)
Other changes in equity									
Transfers between equity accounts	-	1,612	-	(1,612)	-	-	-	-	-
Perpetual subordinated obligations	-	(22)	-	-	1,017	-	995	-	995
Other changes	-	47	-	-	-	(26)	21	-	21
Closing balance at 12/31/2015	1,442	26,132	(248)	(1,408)	1,017	1,742	28,677	228	28,905
Total recognized income/ (expense)	-	(7)	-	434	-	(919)	(492)	4	(488)
Transactions with shareholders or owners									
Increase/ (decrease) of share capital	-	-	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	(3)	(3)
Transactions with treasury shares or own equity instruments (net)	-	-	(7)	-	-	-	(7)	-	(7)
Increases/ (decreases) due to changes in the scope of consolidation	-	-	-	-	-	-	-	(21)	(21)
Other transactions with partners and owners	-	-	-	-	-	-	-	-	-
Other changes in equity									
Transfers between equity accounts	-	(1,408)	-	1,408	-	-	-	-	-
Perpetual subordinated obligations	-	(7)	-	-	(21)	-	(28)	-	(28)
Other changes	-	2	-	-	-	(1)	1	-	1
Closing balance at 03/31/2016	1,442	24,712	(255)	434	996	822	28,151	208	28,359

Notes 1 to 6 are an integral part of this consolidated statement of changes in equity at March 31, 2016.

Repsol, S.A. and investees comprising the Repsol Group
Consolidated cash flow statement for the interim periods ended March 31, 2016 and 2015

	Millions of euros	
	03/31/2016	03/31/2015
Net income before tax	443	1,002
Adjustments to net income:	397	(173)
Depreciation and amortization of non-current assets	575	676
Other adjustments to results (net)	(178)	(849)
Changes in working capital	(201)	27
Other cash flows from operating activities:	263	238
Dividends received	124	124
Income tax received / (paid)	251	145
Other proceeds from / (payments for) operating activities	(112)	(31)
Cash flows from operating activities	902	1,094
Payments for investing activities:	(779)	(782)
Group companies and associates	(171)	(140)
Property, plant and equipment, intangible assets and investment properties	(512)	(565)
Other financial assets	(96)	(77)
Proceeds from divestments:	164	408
Group companies and associates	87	101
Property, plant and equipment, intangible assets and investment properties	76	4
Other financial assets	1	303
Cash flows used in investing activities	(615)	(374)
Proceeds from/ (payments for) equity instruments:	(7)	1,080
Issues	-	995
Acquisition	(7)	(75)
Disposal	-	160
Proceeds from/ (payments for) financial liabilities:	372	1,870
Issues	4,459	3,151
Return and depreciation	(4,087)	(1,281)
Payments for dividends and payments on other equity instruments	(271)	(245)
Other cash flows from financing activities:	(309)	441
Interest payments	(287)	(253)
Other proceeds from/ (payments for) financing activities	(22)	694
Cash flows used in financing activities	(215)	3,146
Effect of changes in exchange rates	(12)	93
Net increase / (decrease) in cash and cash equivalents	60	3,959
Cash and cash equivalents at the beginning of the period	2,448	4,638
Cash and cash equivalents at the end of the period	2,508	8,597
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	03/31/2016	03/31/2015
Cash and banks	1,890	5,250
Other financial assets	618	3,347
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,508	8,597

Notes 1 to 6 are an integral part of this consolidated cash flow statement at March 31, 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(1) GENERAL INFORMATION

1.1 About the Repsol Group

Repsol constitutes an integrated group of oil and gas companies (hereinafter “Repsol”, “Group Repsol” 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, LPG and natural gas, as well as the generation and distribution of electricity.

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 three 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, present fairly the Group’s equity and financial position at March 31, 2016, as well as the results of its operations, the changes in the consolidated equity and the consolidated cash flows for the three-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 May 4, 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 March 31, 2016, specifically, in accordance with the requirements established in the 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 three 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 financial statements, they should be read in conjunction with the Repsol Group’s consolidated financial

statements for the year ended December 31, 2015, which are due for submission for shareholder approval at the Annual General Meeting scheduled for May 20, 2016.

2.2 Applicable standards to the financial information

The newly issued accounting standards applicable to the Group from January 1, 2016¹, have not had a significant impact on the accompanying interim condensed consolidated financial statements.

2.3 Accounting policies and comparative information

In accordance with 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 Talisman on the Group’s business and based on prior experience, the Group have considered that the capitalization of geology and geophysics costs (G&G) during the exploratory phase provides a fairer presentation of the activities’ economic reality and 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 section 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 balance sheet at December 31, 2015 and the statement of changes in equity for the year then ended presented for comparison purposes in these financial statements have been restated to include the necessary modifications in respect of the official 2015 consolidated financial statements². 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, Plan and Equipment	Deferred Tax liabilities	Reserves and translation differences	Net Income
January 1, 2015	31	493	164	360	-
December 31, 2015	40	245	69	397	(181)

Elsewhere, as required under prevailing accounting rules, the earnings per share figures for the three-month period ended March 31, 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 4.5 “*Equity*”.

¹ 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*. As for new standards issued for mandatory application in future years, the only noteworthy development with respect to the information provided in Note 2 of the 2015 consolidated financial statements is the issuance of Clarifications to IFRS 15 “*Revenue from contracts with customers*”.

² The consolidated income statement for the three-month period ended March 31, 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 expenses 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 three 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 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 management of the businesses. Using these segments as a reference point, the Group's management team (Repsol's Corporate, E&P and Downstream Executive Committees) analyses the main operating and financial indicators in order to make decisions about segment resource allocation and to assess how the Company is performing. Repsol did not group segments for the presentation of this information.

The operating segments of the Group are:

- *Upstream*, corresponding to exploration and development of crude oil and natural gas reserves;
- *Downstream*, corresponding, mainly, to (i) refining, trading and transportation of crude oil and oil products, as well as the commercialization of oil products, petrochemical products and LPG, (ii) the commercialization, transport and regasification of natural gas and liquefied natural gas (LNG), and (iii) renewable energy power projects.
- *Gas Natural Fenosa*, corresponding to its shareholding in Gas Natural SDG, S.A., whose main activities are the distribution and commercialization of natural gas, and the generation, distribution and commercialization of electricity.

Finally, *Corporation and adjustments* includes activities not attributable to the aforementioned business segment, and specifically, corporate expenses and financial result, as well as intersegment adjustments of consolidation.

Presentation of segment results

Repsol presents the results for each segment including those from joint ventures¹, or other managed companies operated as such², in accordance with the percentage of interest held by the Group, considering its operational and economic metrics in the same manner and with the same detail as for fully consolidated companies. 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, corresponding to the recurring net operating profit of continuing operations at current cost of supply or CCS after taxes.

The inventory measurement method widely used in the industry, current cost of supply (CCS), differs from that accepted under prevailing European accounting standards, Weighted Average Price. The use of CCS methodology facilitates users of financial information comparisons with other companies in the industry. Under CCS methodology, the purchase price of volumes of inventories sold during the period is based on current prices of purchases during the period. Consequently, Adjusted Net Income does not include the so-called Inventory Effect. This Inventory Effect is presented separately net of the tax effect and excluding minority interests and it is the difference between income using CCS and income using weighted average price.

Likewise, Adjusted Net Income does not include the so-called Non-Recurring Income, that is, those originating from events or transactions of an exceptional nature, or which are not ordinary or usual transactions of the Group. Non-Recurring Income is presented separately, net of the tax effect and excluding minority interests.

However, Adjusted Net Income of the Gas Natural Fenosa segment includes the company's net income in accordance with the equity method³.

At any rate, for each of the metrics identified by segments in Appendix IV (adjusted net income, inventory effect, non-recurring income...), the corresponding items and figures are indicated to facilitate reconciliation with the corresponding metrics prepared in accordance with IFRS-EU.

¹ See heading 4.2 "*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.

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

³ The remaining figures (revenue, capital employed, exploration investments...) only include cash flows generated in the Repsol Group as a shareholder of Gas Natural SDG, S.A. (dividends...).

(3) RESULTS AND INDICATORS BY BUSINESS SEGMENT ¹

3.1 Key performance indicators

Financial indicators ⁽¹⁾	Q1 2016	Q1 2015	Macroeconomic environment	Q1 2016	Q1 2015
Results			Brent (\$/bbl) average	33.9	53.9
EBITDA CCS	1,242	1,174	WTI (\$/bbl) average	33.6	48.6
Adjusted Net Income	572	928	Henry Hub (\$/Mbtu) average	2.1	3.0
Net Income/ (Loss)	434	761	Algonquin (\$/Mbtu) average	3.3	11.5
Earnings per share (€/share)	0.30	0.53	Average exchange rate (\$/€)	1.1	1.1
Capital employed ^{(2) (4)}	40,337	40,839			
ROACE (%) ⁽³⁾	4.5	3.2	Our business performance ⁽¹⁾	Q1 2016	Q1 2015
Financial Overview			Upstream		
Free cash flow ⁽¹¹⁾	201	285	Net liquids production (kbbbl/d)	255	132
Net financial debt ⁽⁴⁾	11,978	11,934	Net gas production (kboe/d)	459	222
Net financial debt / EBITDA CCS ⁽⁵⁾ (x times)	2.41	0.03	Net hydrocarbons production (kboe/d)	714	355
Net Financial Debt / Capital employed (%)	29.7	0.4	Average crude oil realization price (\$/bbl)	30.28	44.63
			Average gas realization price (\$/kscf)	2.35	2.84
Shareholder's remuneration			EBITDA	404	281
Shareholder remuneration (€/share)	0.47	0.47	Adjusted Net Income	17	(190)
			Net capital expenditure ⁽¹⁰⁾	638	753
Main stock indicators ⁽¹⁾	Q1 2016	Q1 2015	Downstream		
Share price at close of financial year (€)	9.9	17.3	Refining capacity (kbbbl/d)	998	998
Average share price (€)	9.4	16.3	Conversion index in Spain (%)	63	63
Market capitalisation (at closure)	14,302	23,830	Refining margin indicator in Spain (\$/bbl)	6.3	8.7
			Oil product sales (kt)	11,125	10,731
Other indicators	Q1 2016	Q1 2015	Petrochemical product sales (kt)	764	741
			LPG sales (kt)	631	704
People			Gas sales in North America (TBtu)	115	107
Total employees ⁽⁶⁾	26,772	24,502	EBITDA CCS	886	936
Number of new hires in the year ⁽⁷⁾	504	700	Adjusted Net Income	556	534
			Net capital expenditure ⁽¹⁰⁾	86	133
Safety and environmental management			Gas Natural Fenosa		
Overall Frequency Rate of accidents ⁽⁸⁾	0.73	0.72	Adjusted Net Income	99	122
Direct CO ₂ emissions (million t) ⁽⁹⁾	5.03	3.20			

NOTE: Operating metrics and indicators correspond to information not reviewed by the auditor.

- (1) Where appropriate, figures shown in million euros. The definitions and composition of these metrics are provided in Appendix I of the Group Management Report accompanying the 2015 consolidated financial statements.
- (2) Capital employed from continuing operations.
- (3) The ROACE for the first three months of 2016 is an annualized indicator by a mere extrapolation of those period's figures, and the one corresponding to the 2015 financial year corresponds to the annual real data.
- (4) 2015 comparative figure corresponds to December 31, 2015.
- (5) EBITDA CCS 2016 is an annualized indicator corresponding to the first three months of 2016 obtained by a mere extrapolation of this period's figures and the one corresponding to the 2015 financial year corresponds to the annual real data.
- (6) The workforce figure does not include employees of partially-owned companies in which Repsol does not have management control.
- (7) The % of permanent new hires in the first quarter of 2016 and 2015 amounts to 55% and 47%, respectively.
- (8) Frequency rate (FR) with sick leave: number of accidents leading to days lost or deaths recorded over the year, for every million hours worked.
- (9) Includes direct emissions of CO₂ from the most relevant business units and countries in which the Group operates, accounting for 98% of the Company's direct Greenhouse Gas (GHG) emissions inventory.
- (10) Net capital expenditure in operating asset disposal.
- (11) Cash flows obtained from operating activities and from net investment activities.

¹ All information disclosed throughout this Note, and unless otherwise expressly indicated, was prepared according to the Group's reporting model.

3.2 Macroeconomic environment

The world economy continued to grow at a moderate pace during the first quarter of 2016. After a negative start to the year, recent indicators have been more encouraging. The European economy continues to grow at around 1.6%, propped up by laxer monetary conditions and reduced fiscal austerity, with the Spanish economy registering annualized growth of around 3.4% in the first quarter.

Brent crude oil prices averaged \$33.9 per barrel (\$/bbl) in the first quarter, shaped by negative market sentiment regarding surplus oil supply at the global level. Having hit a low of \$26.4/bbl on January 20, oil prices have since rallied to \$38.7/bbl at the March close, fueled by a perceived fresh slump in non-OPEC supply, particularly following the release of unconventional production figures in the US, and rumors of an agreement between OPEC and non-OPEC producer nations to freeze production. Additionally, demand for oil is behaving favorably, particularly demand for transportation-related consumption and in emerging markets such as India, where the oil price elasticity effect was particularly evident.

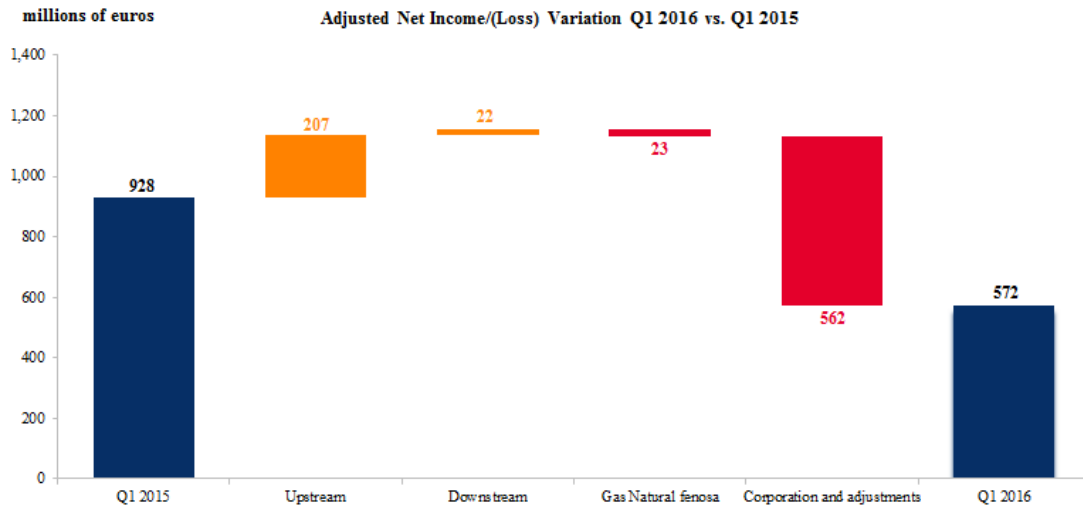
Natural gas dynamics is marked by the warmest recollected first-quarter temperatures. As a result, despite the drop in production in the US, natural gas prices - using the Henry Hub benchmark - averaged \$2.1 per million British thermal units (\$/MMBtu). Anomalous temperatures similarly took a toll on diesel prices and refining margins on the back of lower heating fuel consumption.

3.3 Results

	Millions of euros		
	03/31/2016	03/31/2015	Variation
Upstream	17	(190)	207
Downstream	556	534	22
Gas Natural Fenosa	99	122	(23)
Corporation and adjustments	(100)	462	(562)
ADJUSTED NET INCOME	572	928	(356)
Inventory effect	(157)	(140)	(17)
Non-recurring income	19	(27)	46
NET INCOME	434	761	(327)

The first-quarter 2016 results, compared to the same period in the previous year, occur in an **environment** marked by low oil and gas prices (a 37% decrease in Brent prices and a 30% decrease in the Henry Hub), slight dollar appreciation against the euro, lower refining margins and a good international context in the Chemicals business.

Adjusted net income amounted to €572 million, 38% lower than the same period in the previous year. Lower results in *Corporation*, due mainly to the notable impact of dollar appreciation on positions held in this currency in the first quarter of 2015, and at *Gas Natural Fenosa*, due to lower results from gas commercialization, were partially offset by the improvement in the *Upstream* results, where the difficult price environment was mitigated by higher production and lower costs, as well as in the *Downstream* business, mainly as a consequence of the good margins achieved in the Chemicals business.

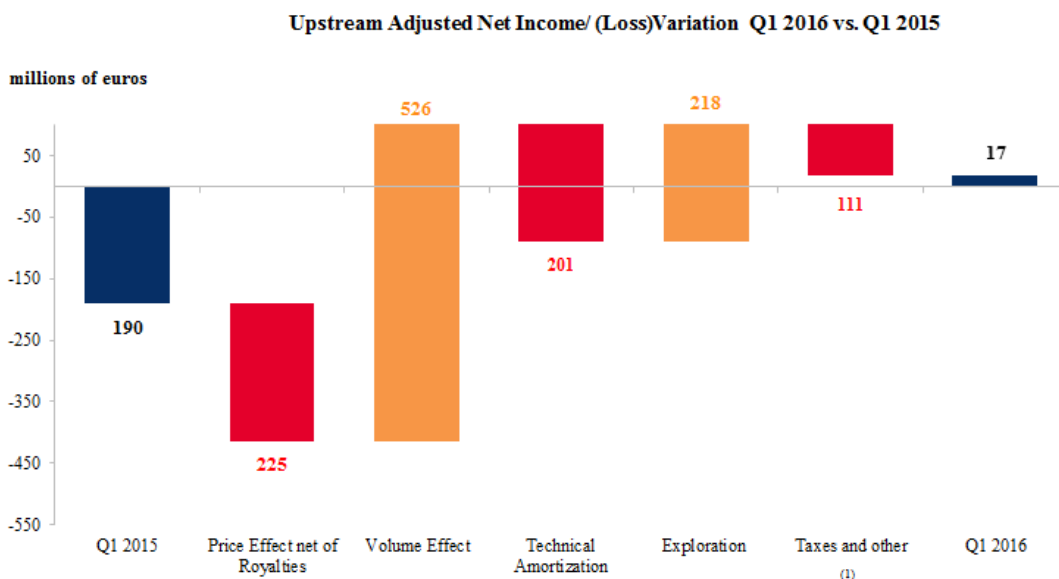


In the *Upstream* segment, crude oil and gas realization prices decreased by 32% and 17%, respectively, as a result of the decline in international benchmark prices, which fell to their lowest levels since prices began to fall in 2014. Despite this difficult environment, *Upstream's* adjusted net income has improved significantly.

Production has increased by 101%, reaching an average of 714.2 kboe/d during the quarter, mainly due to the contribution of Talisman's assets (330.3 kboe/d), the start-up of production at Cardón IV (Venezuela) and the new wells in Sapinhoá (Brazil). All of this despite the decline in production in Trinidad and Tobago and Peru due to stoppages and field maintenance work. Moreover, regarding the exploration activity, the conclusion of three exploratory drills and two appraisal drills during the reporting period stands out. One of the drills turned out positive, two negative and the other two are still under evaluation.

In terms of the income of the period, it is worth highlighting the reduction in costs due to fewer dry wells compared to the previous year, improvements in operational efficiency and a lower tax expense.

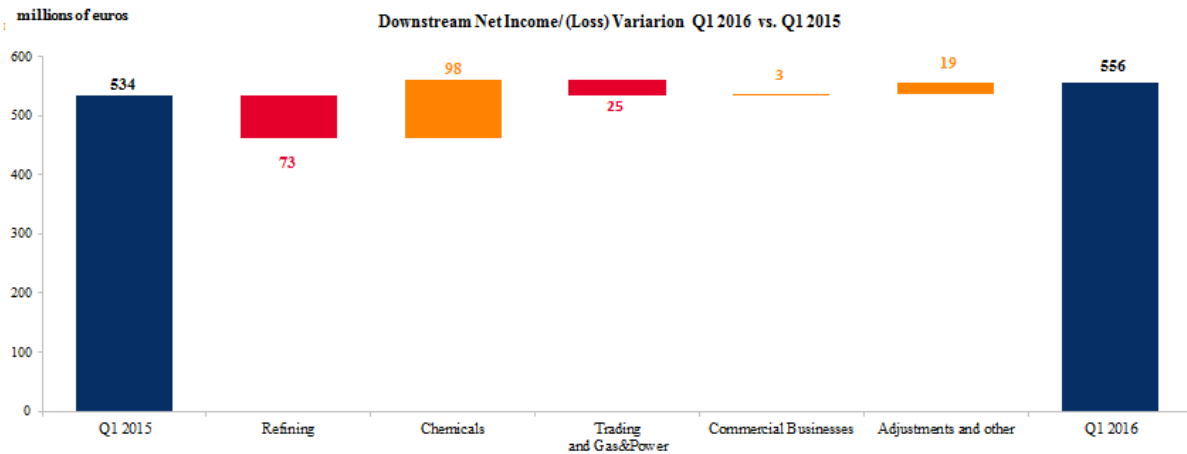
The chart below breaks down the main drivers of the evolution of *Upstream's* results:



(1) It mainly includes tax expense and other operating expenses.

EBITDA in *Upstream* amounted to €404 million, 44% higher year-on-year. Net capital expenditure was 15% lower year-on-year, despite the fact that first-quarter 2016 figures include Talisman's assets and the capitalization of geology and geophysics costs.

In *Downstream*, adjusted net income amounted to €56 million, 4% higher compared to the same period in 2015.



This performance is primarily attributable to:

- Refining, the impact of lower margins due to the spread weakness of middle distillate and narrower spreads of heavy crude oil, partially offset by the strengthening of spreads in gasoline and naphtha, lower energy costs, higher distillation and the decrease on Spanish taxes.
- Better margins and growth in sales volumes in the Chemicals business, driven by a more favorable international environment, the efficiency measures implemented, lower stoppage-related costs and the reduction of Spanish taxes.
- The adverse trend in prices and margins in the *Trading* and *Gas&Power* businesses shaped by weather conditions.
- Results in the Commercial Businesses (Marketing, LPG, Lubricants...) were flat year-on-year.

EBITDA CCS in *Downstream* amounted to €86 million (compared to €36 million in Q1 2015). Net capital expenditure narrowed by 35% year-on-year.

First-quarter adjusted net income at *Gas Natural Fenosa* amounted to €9 million, compared to €122 million in the first quarter of 2015. The decline is primarily attributable to lower results in the gas commercialization business due to the current price environment, and the adverse impact of exchange rates in local currencies in Latin American.

Corporation and adjustments reported an adjusted net loss of €100 million, compared to net income of €62 million in the first quarter of 2015, driven mainly by lower finance income in 2016 due to the impact of dollar appreciation on positions held in this currency and the integration of Talisman's finance and corporate expenses, partially offset by the gains generated on the repurchase of bonds and a Corporate operating expense reduction due to efficiency gains and the synergies materialized with Talisman during the period.

The negative **inventory effect** (€157 million) is attributable to the decrease in crude oil and product prices during the period.

In the first quarter 2016, **non-recurring income** was positive, mainly due to the gains recognized on the sale of the piped gas assets (€52 million) (see Note 4.3), partially mitigated by workforce restructuring charges.

As a result, **net income** amounted to €434 million, compared to net income of €761 million in the first three months of 2015.

Net debt stood at €1,978 million at the March close, in line with the first quarter 2015, despite the funding of the dividend payment in January. This evolution, even in the challenging price environment, is explained by the €201 million of free cash flow (cash from operating activities less Net capital expenditure) generated during the period.

3.4 Information by geographical area

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

Millions of euros	First quarter 2016 and 2015							
	Operating revenue (2)		Adjusted Net Income		Net operating investments (1)(2)		Capital employed (3)	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015	03/31/2016	03/31/2015	03/31/2016	12/31/2015
Upstream	1,084	763	17	(190)	638	753	23,053	23,418
Europe, Africa and Brazil	258	146	24	(69)	113	76	-	-
Latam and the Caribbean	374	468	65	27	189	283	-	-
North America	224	112	(68)	(13)	169	104	-	-
Asia and Russia	228	37	6	4	22	3	-	-
Exploration and Other	-	-	(10)	(139)	145	287	-	-
Downstream	7,110	9,190	556	534	86	133	9,692	9,758
Europe	6,364	8,253	528	490	52	110	-	-
Rest of the world	1,124	1,426	28	44	34	23	-	-
Adjustments	(378)	(489)	-	-	-	-	-	-
Gas Natural Fenosa	-	-	99	122	-	-	4,809	4,769
Corporation and other adjustments	(145)	(250)	(100)	462	(15)	47	2,783	2,894
TOTAL	8,049	9,703	572	928	709	933	40,337	40,839

(1) Includes operating investments net of divestments during the period but not investments in “*Other Financial Assets*”.

(2) To see the reconciliation between these figures and IFRS-UE figures please refer to Appendix IV.

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

(4) OTHER INFORMATION

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

4.1 Assets

On May 8, 2015, Repsol, through its Canadian subsidiary Repsol Energy Resources Canada Inc., acquired Talisman's Energy Inc. (hereinafter "Talisman")¹. The total amount paid out for the acquisition amounted to €8,005² million.

The difference between Talisman'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.

This business combination, provided that the prescribed 12-month period - starting on the acquisition date of May 8, 2015 - has yet to elapse, would be revised if any of the circumstances contemplated in IFRS 3 "Business Combinations" were to materialize.

The main investments made by the Group are detailed in heading 3.4 "Information by geographical area".

4.2 Investments accounted for using the equity method

Repsol accounts using the equity method all investments and results in joint ventures and associated companies in which it participates. Investments in joint ventures correspond mainly to Gas Natural Fenosa S.A. and Repsol Sinopec Brasil S.A. Associates companies in which the Group has significant influence relate mainly to investments in 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	
	03/31/2016	12/31/2015	03/31/2016	03/31/2015
Joint ventures	11,546	11,672	152	79
Associates	130	126	7	(6)
TOTAL	11,676	11,798	159	73

Changes in this consolidated balance sheet heading during the first three months of 2016 are as follows:

Millions of euros	2016	2015
Balance at January 1	11,798	11,110
Net investments	104	69
Share of results of companies accounted for using the equity method after taxes	159	73
Dividends distributed	(1)	(5)
Translation differences	(324)	966
Reclasifications and other changes	(61)	32
Balance at March 31	11,676	12,245

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

² Includes the effect of exchange rate hedging transactions on the acquisition price (see section 4.2.2).

4.3 Non-current investments held for sale and gains on disposal of non-current assets

Against the backdrop of the agreements reached in 2015 for the sale of the Group's piped gas business in Spain, during 2016 Repsol Butano, S.A. sold Redexis Gas, S.A. certain LPG facilities with a carrying amount of €70 million before taxes. Authorization from the authorities for the sale of the rest of the assets is still pending, and it will be completed in the course of 2016.

In February 2016, Repsol agreed the sale of its UK wind power business to China's SDIC Power for €238 million. The sale includes the Group's interests in the Inch Cape Project (100%) and Beatrice (25%), located on the east coast of Scotland. At March 31, 2016 related assets and liabilities, in the amounts of €178 and €20 million, respectively, are included within "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale". The sale will close when the corresponding authorizations are obtained from the pertinent authorities.

In April 2016, Repsol agreed the sale of its liquid petroleum gas (LPG) businesses in Peru and Ecuador to a local player, Abastible, for approximately \$335 million, subject to the customary transaction adjustments. At March 31, 2016, related assets and liabilities in the amounts of €226 and €84 million, respectively, are included within "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale". The sale will close when the corresponding authorizations are obtained from the pertinent authorities.

4.4 Financial instruments

The breakdown of the different items corresponding to the consolidated assets and liabilities of a financial nature included in the balance sheet, is as follows:

	Millions of euros	
	03/31/2016	12/31/2015
Non-current financial assets	719	715
Non-current derivatives on trading transactions ⁽¹⁾	2	4
Other current financial assets	1,205	1,237
Current derivatives on trading transactions ⁽¹⁾	202	413
Cash and cash equivalents	2,508	2,448
Total financial assets	4,636	4,817
Non-current financial liabilities	11,001	10,581
Non-current derivatives on trading transactions ⁽²⁾	-	1
Current financial liabilities	6,554	7,073
Current derivatives on trading transactions ⁽²⁾	34	129
Total financial liabilities	17,589	17,784

⁽¹⁾ Recognized in heading "Other non-current assets" and "Other receivables" of the consolidated balance sheet.

⁽²⁾ Recognized in heading "Other non-current liabilities" and "Other payables" of the consolidated balance sheet.

4.4.1 Financial Assets

The detail, by type of asset, of the Group's financial assets is as follows:

Millions of euros	March 31, 2016 and December 31, 2015													
	Financial assets held for trading ⁽³⁾		Other financial assets at fair value through profit or loss ⁽³⁾		Financial assets available for sale ⁽³⁾		Loans and receivables ⁽²⁾		Held to maturity investments ⁽²⁾		Hedging derivatives ⁽³⁾		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Equity instruments	-	-	-	-	81	82	-	-	-	-	-	-	81	82
Derivatives	2	4	-	-	-	-	-	-	-	-	-	-	2	4
Other financial assets	-	-	66	66	-	-	572	567	-	-	-	-	638	633
Long term/Non-current	2	4	66	66	81	82	572	567	-	-	-	-	721	719
Derivatives	244	477	-	-	-	-	-	-	-	-	8	1	252	478
Other financial assets	-	-	11	11	-	-	1,154	1,170	2,498	2,439	-	-	3,663	3,620
Short term/Current	244	477	11	11	-	-	1,154	1,170	2,498	2,439	8	1	3,915	4,098
TOTAL⁽¹⁾	246	481	77	77	81	82	1,726	1,737	2,498	2,439	8	1	4,636	4,817

(1) There are also trade receivables included under balance sheet headings "Other non-current assets", "Trade receivables" and "Other receivables" (at March 31, 2016, €19 million were classified as non-current and €3,854 million as current; at December 31, 2015, €175 million were classified as non-current and €4,254 as current).

(2) The fair value of these assets coincides with their carrying amount.

(3) In the section titled "Fair value of financial instruments" on Appendix V, the Group's financial instruments are classified in accordance with their fair value hierarchy.

4.4.2 Financial Liabilities

The detail, by type of liability, of the Group's financial liabilities is as follows:

Millions of euros	March 31, 2016 and December 31, 2015									
	Financial liabilities held for trading ⁽²⁾		Financial liabilities and other payables		Hedging derivatives ⁽²⁾		Total		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bank borrowings	-	-	3,412	1,543	-	-	3,412	1,543	3,412	1,543
Bonds and other securities	-	-	7,470	8,939	-	-	7,470	8,939	7,604	8,878
Derivatives	8	1	-	-	102	90	110	91	110	91
Other financial liabilities	-	-	9	9	-	-	9	9	9	9
Long-term / Non-current	8	1	10,891	10,491	102	90	11,001	10,582	11,135	10,521
Bank borrowings	-	-	1,601	1,707	-	-	1,601	1,707	1,601	1,707
Bonds and other securities	-	-	1,999	2,376	-	-	1,999	2,376	2,034	2,380
Derivatives	92	193	-	-	2	5	94	198	94	198
Other financial liabilities	-	-	2,894	2,921	-	-	2,894	2,921	2,894	2,921
Short-term / current	92	193	6,494	7,004	2	5	6,588	7,202	6,623	7,206
TOTAL⁽¹⁾	100	194	17,385	17,495	104	95	17,589	17,784	17,758	17,727

(1) There are also financial lease liabilities at the reporting dates (at March 31, 2016 and December 31, 2015, the balance sheet includes €1,468 and €1,540 million, respectively, within "Other non-current liabilities"; and €196 and €206 million, respectively, within "Other payables").

(2) In the section titled "Fair value of financial instruments" on Appendix V, the Group's financial instruments are classified in accordance with their fair value hierarchy.

Bank borrowings

During the period, Repsol, S.A. has received financing from several banks for a nominal total amount of €1,820 million; these loans fall due between 2017 and 2020.

Bonds and other securities

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

- In January 2016, Repsol International Finance, B.V. issued €100 million of 15-year 5.375% bonds; the issue was placed privately and was priced at 96.298% 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*”).

The balance of the issues of bonds and other securities at March 31, 2016 is as follows:

CONCEPT	ISSUER	DATE	CURRENCY	NOMINAL (millions)	AVERAGE RATE %	MATURITY	MARKET ⁽⁵⁾
Bond ⁽³⁾	Talisman Energy Inc.	oct-97	Dollar	55	7.250%	oct-27	-
Bond	Talisman Energy Inc.	apr-02	Pound	250	6.625%	dec-17	LSE
Bond ⁽³⁾	Talisman Energy Inc.	may-05	Dollar	90	5.750%	may-35	-
Bond ⁽³⁾	Talisman Energy Inc.	jan-06	Dollar	131	5.850%	feb-37	-
Bond ⁽³⁾	Talisman Energy Inc.	nov-06	Dollar	119	6.250%	feb-38	-
Bond ⁽¹⁾	Repsol International Finance, B.V.	feb-07	Euro	886	4.750%	feb-17	LuxSE
Bond ⁽³⁾	Talisman Energy Inc.	jun-09	Dollar	364	7.750%	jun-19	-
Bond ⁽³⁾	Talisman Energy Inc.	nov-10	Dollar	241	3.750%	feb-21	-
Bond ⁽¹⁾	Repsol International Finance, B.V.	ene-12	Euro	1,000	4.875%	feb-19	LuxSE
Bond ⁽³⁾	Talisman Energy Inc.	may-12	Dollar	97	5.500%	may-42	-
Bond ⁽¹⁾	Repsol International Finance, B.V.	sep-12	Euro	750	4.375%	feb-18	LuxSE
Bond ⁽¹⁾	Repsol International Finance, B.V.	may-13	Euro	1,200	2.625%	may-20	LuxSE
Bond ⁽¹⁾	Repsol International Finance, B.V.	oct-13	Euro	1,000	3.625%	oct-21	LuxSE
Bond ⁽¹⁾	Repsol International Finance, B.V.	dic-14	Euro	500	2.250%	dic-26	LuxSE
Bond ⁽²⁾	Repsol International Finance, B.V.	mar-15	Euro	1,000	4.500% ⁽⁴⁾	mar-75	LuxSE
Bond ⁽¹⁾	Repsol International Finance, B.V.	dic-15	Euro	600	2.125%	dec-20	LuxSE
Bond ⁽¹⁾	Repsol International Finance, B.V.	ene-16	Euro	100	5.375%	jan-31	LuxSE

⁽¹⁾ Issues under the “Euro 10,000,000,000 Guaranteed Euro Medium Term Note Programme” (EMTNs), guaranteed by Repsol S.A. and renewed in September 2015.

⁽²⁾ 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.

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

⁽⁴⁾ Coupon scheduled for reset on March 25, 2025 and March 25, 2045.

⁽⁵⁾ LuxSE (Luxembourg Stock Exchange) and LSE (London Stock Exchange).

Moreover, Repsol International Finance, B.V. (RIF) holds a Euro Commercial Paper (ECP) Programme, arranged on May 16, 2013 and guaranteed by Repsol, S.A., with a limit up to € 2,000 million. Under this program, a number of issues and liquidations were carried out, with an outstanding balance at March 31, 2016 as follows:

Concept	Issuer	Currency	Open balance at 03/31/2016 (millions)	Equivalent Amount in Euros
ECP	Repsol International Finance B.V.	Euro	847	847
ECP	Repsol International Finance B.V.	Dollar	196	172
ECP	Repsol International Finance B.V.	Swiss franc	5	4

Other financial liabilities

The loan granted by Repsol Sinopec Brasil, S.A. through its subsidiary Repsol Sinopec Brasil, B.V. is noteworthy, the related balance at March 31, 2016 and December 31, 2015, amounting to €2,699 and €2,819 million, respectively.

4.5 Equity

4.5.1 Issued Share Capital

At March 31, 2016, Repsol issued share capital amounts to €1,441,783,307, fully subscribed and paid up and represented by 1,441,783,307 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 (latest available information)	% of share capital
Fundación Bancaria Caixa d'Estalvis y Pensions de Barcelona ⁽¹⁾	12.36
Sacyr, S.A. ⁽²⁾	8.48
Temasek Holdings (Private) Limited ⁽³⁾	4.95
Blackrock, Inc. ⁽⁴⁾	3.04

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

⁽²⁾ Sacyr S.A. holds its stake through Sacyr Participaciones Mobiliarias, S.L.

⁽³⁾ Temasek holds its stake through its subsidiary, Chembra Investment PTE, Ltd.

⁽⁴⁾ Blackrock holds its shareholding through several funds and accounts managed by fund managers under its control.

4.5.2 Treasury shares and own equity instruments

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

	No. of shares	Amount Millions of euros	% of capital
Balance at 12/31/2015	18,047,406		1.25%
Open-market purchases	695,289	7	0.05%
Employee Share Acquisition Plan ⁽¹⁾	218,723	2	0.02%
Balance at 03/31/2016 ⁽²⁾	18,742,695		1.30%

⁽¹⁾ All of the shares bought back under the scope of the Share Acquisition Plan have been delivered to employees (see Note 27.4 of the 2015 consolidated financial statements).

⁽²⁾ In March, Repsol Tesorería y Gestión Financiera, S.A. sold 18 million shares, simultaneously arranging equity swaps with financial institutions under which the voting rights and economic risk intrinsic to the shares sold have been transferred to this company.

4.5.3 Earning per share

Earnings per share at March 31, 2016 and 2015 are detailed below:

EARNINGS PER SHARE (EPS)	03/31/2016	03/31/2015
Net income attributable to the parent (millions of euros)	434	761
Adjustment for the interest expense of the subordinated perpetual bonds (millions of euros)	(7)	-
Weighted average number of shares outstanding at March 31 (millions of shares) ⁽¹⁾	1,424	1,436
EPS basic/diluid (€/ share)	0.30	0.53

⁽¹⁾ Share capital registered at March 31, 2015, amounted to 1,374,694,217 shares, though the weighted average number of shares in circulation for purposes of calculating earnings per share at said date, 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 comparative information").

4.5.4 Shareholder remuneration

The following table breaks down the dividend payments received by Repsol's shareholders during the three-month period ending in March 31, 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

As of the date of authorizing the accompanying interim condensed consolidated financial statements for issue, the Board of Directors has resolved, at a meeting held on March 30, 2016, to submit a dividend motion to the Company's shareholders for approval at the Annual General Meeting scheduled for May 19 and 20, 2016, on first and second call, respectively ; specifically, against the backdrop of the "Repsol Dividendo Flexible" Program and on the dates on which the Company has traditionally paid its complementary dividend, it is proposing the execution of a bonus share issue with a charge against voluntary reserves (retained earnings) equivalent to shareholder remuneration of around €0.30 per share.

4.6 Tax situation

Income tax

For the calculation of this interim's period 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 used to estimate tax expense in respect of adjusted net income for the period has been 2%. This rate is significantly lower compared to the same period last year (34%), mainly due to the reduction in deferred tax liabilities (due to local currency appreciation in countries with businesses whose functional currency is the dollar - Brazil, Colombia, Peru, Malaysia, etc. - and lower profit expectations in light of the current low oil and gas prices scenario), the recognition of losses in *Upstream* businesses with high tax rates, and the reduction in the statutory corporate tax rate in Spain (see section 3.3).

Government and legal proceedings with tax implications

As for the main tax proceedings affecting the Group at December 31, 2015, there have been no material changes in the interim, except as noted below:

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 submitted 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, BP Trinidad & Tobago LLC expects that the Administration will annul the actions.

4.7 Litigation

The information herein updates the status of the information included under Note 28 “*Legal contingencies*” of the 2015 consolidated financial statements.

Argentina

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

The plaintiff claims the reimbursement of all the amounts the consumers of bottled LPG were allegedly charged in excess from 1993 to 2001, corresponding to a surcharge for such product. With respect to the period from 1993 to 1997, the claim is based on the fine imposed on YPF S.A. by the Secretariat of Industry and Commerce through its resolution of March 19, 1999. It should be noted that Repsol has never participated in the LPG market in Argentina and that the fine for abusing a dominant position was imposed on YPF S.A. In addition, YPF S.A. has alleged that charges are barred by the applicable statute of limitations. Hearings have commenced and are in progress. The claim amounts to ARP 91 million (€7 million) for the period from 1993 to 1997, amount which updated at August 18, 2012 by an expert appraiser, this amount would total ARP 387 million (€43 million) plus interest and expenses.

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 resolution contained in the judgment does not expressly clarify that the lawsuit is rejected in respect of Repsol, recital XXVI does absolve it from damages since Repsol was not a shareholder of YPF during the period considered in such judgment (1993 to 1997). In order to clarify the ruling, on February 5, 2016, Repsol filed an appeal seeking clarification with a view to obtaining a ruling that expressly dismisses the lawsuit pursued against Repsol. This request has been turned down by the court which considers it of futile on the grounds that the Sentence’s “*pronouncements with respect to Repsol S.A.’s liability are sufficiently clear*”. The claimant appealed the Sentence on February 11, 2016; however, the grounds for the appeal do not question the absolution of Repsol.

United States of America

Passaic River / Newark Bay, United States, Lawsuit.

The events underlying this lawsuit related to the sale by Maxus Energy Corporation (“Maxus”) of its former chemicals subsidiary, Diamond Shamrock Chemical Company 97 (“Chemicals”) to Occidental Chemical Corporation (“OCC”). Maxus agreed to indemnify Occidental for certain contingencies relating to the business and activities of Chemicals prior to September 4, 1986. In 1995, YPF S.A. (“YPF”) acquired Maxus and subsequently (in 1999) Repsol S.A. acquired YPF.

In December 2005, the New Jersey Department of Environmental Protection (“DEP”) and the New Jersey Spill Compensation Fund (together, the “State of New Jersey”) sued Repsol YPF S.A. (today called Repsol, S.A., hereinafter, “Repsol”); YPF, YPF Holdings Inc. (“YPFH”), CLH Holdings (“CLHH”); Tierra Solutions, Inc. (“Tierra”); Maxus and OCC for the alleged contamination caused by the former Chemicals plant which allegedly contaminated the Passaic River, Newark Bay and other bodies of water and properties in the vicinity (the Passaic River and Newark Bay clean-up lawsuit). In August 2010, the scope of the suit was expanded to include YPF International, S.A. (“YPFI”), and Maxus International Energy Company (“MIEC”).

On September 26, 2012 OCC filed a “Second Amended Cross Claim” (the “Cross Claim”) against Repsol, YPF, Maxus (jointly, the “Defendants”), Tierra and CLHH.

Between June 2013 and August 2014, the Defendants, among other parties, signed a series of settlement agreements, without acknowledging liability, with the State of New Jersey under which the latter withdrew its cases against the former in exchange for certain payments.

The judge ruled on certain Motions to Dismiss presented by the Defendants in respect of the Cross Claim on January 29, 2015, dismissing, in full or in part, with prejudice, 10 of the 12 claims presented by OCC. The judge issued a new timeline for the proceedings on July 1, 2015, setting the hearing date for June 2016.

On November 27, 2015, the parties presented several Motions for Summary Judgment and on January 14, 2016, the Special Master issued recommendations on these Motions, admitting the motions submitted by Repsol in relation to its classification as alter ego to Maxus and dismissing OCC's Motion against Repsol's claim vis-a-vis OCC in respect of the \$65 million paid pursuant to the agreement with New Jersey State.

These recommendations were appealed by OCC, Maxus and YPF on February 16, 2016 before the presiding judge who, in a hearing on April 5, 2016, decided to uphold all of the recommendations issued by the Special Master, thereby dismissing in full OCC's suit against Repsol. This decision can still be appealed before the Superior Court of New Jersey Appellate Division and OCC, YPF and Maxus have announced their intention to appeal.

United Kingdom

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

On July 13, 2015, Addax Petroleum UK Limited and Sinopec International Petroleum Exploration and Production Corporation, filed a “Notice of Arbitration” against Talisman Energy Inc. (“TEI”) and Talisman Colombia Holdco Limited (“TCHL”) in connection with the purchase of 49% shares of Talisman Energy (UK) Limited (now known as TSEUK). TEI and TCHL filed their response to the Notice of Arbitration on October 1, 2015.

The preliminary hearing before the Court of Arbitration took place on February 18, 2016, where it was decided, among other procedural matters, to schedule the hearing for between January 29 and February 16, 2018. The Company believes the claims included in the Notice of Arbitration are without merit.

(5) EVENTS AFTER THE REPORTING PERIOD

Apart from the sale of the LPG business in Peru and Ecuador, described in Note 4.3, there have been no subsequent events to highlight.

(6) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These interim condensed consolidated financial statements are prepared on the basis of International Financial Reporting Standards, as endorsed by the European Union (IFRS-UE), and Article 20 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group may not conform to other generally accepted accounting principles in other countries.

APPENDIX I: SCOPE OF CONSOLIDATION

The entities comprising the Repsol Group are itemized in Appendix I of the 2015 consolidated financial statements. The main changes to the Group's composition compared with the information provided in the 2015 consolidated financial statements are detailed below:

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

Name of the entity (or business activity) acquired/absorbed	Category	Transaction closing date	% of voting rights acquired ⁽¹⁾	% of total voting rights acquired in the entity post - acquisition
Repsol UK, Ltd	Constitution	jan-16	100.00%	100.00%
Rocsole OY	Acquisition	jan-16	15.63%	15.63%
Inch Cape Offshore, Ltd.	Increase of participation	jan-16	49.00%	100.00%

⁽¹⁾ Corresponds to the equity shareholding in the acquired company.

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

Name of the entity (or business activity) sold, split or retired	Category	Transaction closing date	% of voting rights sold or retained	% of total voting rights in the entity post-sale	Income / (Loss) generated (Millions of euros) ⁽¹⁾
Moray Offshore Renewables, Ltd.	Sale	jan-16	33.36%	0.00%	7

⁽¹⁾ Corresponds to recognized pre-tax profit.

NOTE: With respect to the disposals, increases and decreases in ownership interests in the Gas Natural Fenosa Group companies, see this group's interim condensed consolidated financial statements (www.portal.gasnatural.com).

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 between 2014 and 2020 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 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 IET ministerial orders stipulating mandatory contributions to the National Energy Efficiency Fund, including, as warranted, related collection letters, are being appealed by the various companies encompassed by the aforementioned National Fund contribution obligation, including the Group entities subject to this obligation.

Venezuela

On January 14, 2016, Extraordinary Official Journal of the Bolivarian Republic of Venezuela No. 6,214 published Decree No. 2,184, declaring a State of Economic Emergency throughout the entire territory of the Republic. The purpose of the Decree was to empower the Executive Branch to adopt the measures it deemed opportune to address the exceptional, extraordinary and circumstantial situation facing the Venezuelan economy. The Decree was to be in effect for 60 days, starting from its date of publication in the Official Journal, with scope for extension for a period of similar length.

Even though the National Assembly resolved to revoke the Decree, it has remained in effect by virtue of the sentence issued by the Supreme Court of Justice's Constitutional Court on January 20, 2016, declaring it pertinent and constitutional.

At the reporting date, the Decree was in effect for an additional 60-day period: on March 11, 2016, the Executive Branch submitted the extension of the State of Economic Emergency to the Supreme Court of Justice's Constitutional Court, which had declared the decree constitutional, ordering its publication, despite the resolution issued by the National Assembly rejecting the President of the Republic's application to extend the State of Economic Emergency declared by means of Decree No. 2,184 on January 14, 2016.

Foreign Exchange Agreement No. 35 took effect on March 10, 2016; this agreement establishes

a new exchange regime in which two exchange rates will co-exist: a protected rate (known as DIPRO) of VEF/USD 10 for basic necessities, pensions and payment of overseas studies; and a floating rate (DICOM) of VEF/USD 273 (as of March 31, 2016), which will fluctuate as a function of internal market demand. Publication of a new Foreign Exchange Agreement enacting application of this new regime for mixed-ownership companies and gas license holders is pending.

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 geology and geophysics 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 proved 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 and/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 geology and geophysics 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 proved 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 unproved 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 “*Impairment losses recognized and losses on disposal of non-current assets*” or “*Income from reversal of impairment losses and gains on disposal of non-current assets*” in profit or loss, as warranted.

APPENDIX IV: RECONCILIATION BETWEEN REPSOL'S REPORTING MODEL AND IFRS-EU

The reconciliation between adjusted net income (loss) and IFRS-EU net income (loss) for the first quarter of 2016 and 2015 is as follows:

First quarter income/ (loss) 2016 and 2015												
Millions of euros	Adjusted Net Income		Joint Ventures Reclassification		Non-Recurring Items		Inventory Effect		Total Adjustments		IFRS -EU Results	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating Income	560	587	(25)	(3)	22	(77)	(215)	(212)	(218)	(292)	342	295
Financial Result	(77)	655	(3)	(44)	22	23	-	-	19	(21)	(58)	634
Share of results of companies accounted for using the equity method- net of tax	111	126	48	(53)	-	-	-	-	48	(53)	159	73
Net Income before tax	594	1,368	20	(100)	44	(54)	(215)	(212)	(151)	(366)	443	1,002
Income tax	(10)	(423)	(20)	100	(25)	27	53	60	8	187	(2)	(236)
Net income	584	945	-	-	19	(27)	(162)	(152)	(143)	(179)	441	766
Net income attributable to minority interests	(12)	(17)	-	-	-	-	5	12	5	12	(7)	(5)
TOTAL NET INCOME ATTRIBUTABLE TO THE PARENT	572	928	-	-	19	(27)	(157)	(140)	(138)	(167)	434	761

First quarter metrics 2016 and 2015 (millions of euros)						
OTHER METRICS	Group reporting model		Adjustments of joint ventures and Other ⁽²⁾		IFRS - EU	
	2016	2015	2016	2015	2016	2015
EBITDA CCS	1,242	1,174	(402)	(345)	840	829
Free Cash Flow	201	285	86	435	287	720
Net financial debt ⁽¹⁾	11,978	11,934	1,115	1,310	13,093	13,244

⁽¹⁾ The comparable 2015 metric corresponds to December 31, 2015 in the case of net debt.

⁽²⁾ The adjustment to CCS EBITDA includes negative inventory effects of €215 million and €212 million in the first quarters of 2016 and 2015, respectively.

The revenue breakdown by segments is disclosed below:

Segments	Millions of euros					
	Revenue from sales to external customers		Revenue from inter-segments sales		Total reported revenue	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Upstream	943	516	141	247	1,084	763
Downstream	7,106	9,187	4	3	7,110	9,190
Corporation	-	1	2	-	2	1
(-) Inter-segment adjustments and eliminations of operating income	-	(1)	(147)	(250)	(147)	(251)
TOTAL	8,049	9,703	-	-	8,049	9,703

The reconciliation of other metrics disclosed in Note 3.4 with the IFRS-EU disclosures for the first quarters of 2016 and 2015 is as follows:

	Millions of euros	
	03/31/2016	03/31/2015
Adjusted operating revenue ⁽¹⁾	8,049	9,703
<i>Adjustments for joint ventures or other companies managed as such:</i>		
Upstream	(377)	(351)
Downstream	(5)	(21)
Corporation	-	(1)
IFRS-EU operating revenue ⁽²⁾	7,667	9,330
Adjusted net operating investments ⁽¹⁾	709	933
<i>Adjustments for joint ventures or other companies managed as such:</i>		
Upstream	(173)	(330)
Downstream	(2)	(3)
IFRS-EU net operating investments ⁽³⁾	534	600

⁽¹⁾ Figures compiled in keeping with the Group's reporting model described in Note 2.6 "Information by business segment".

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

⁽³⁾ Includes investments accrued during the period net of disposals but does not include investments in "Other financial assets".

APPENDIX V: OTHER DETAILED INFORMATION

Fair value of financial instruments

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

Millions of euros	March 31, 2016 and December 31, 2015							
	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial Assets								
Financial assets held for trading	156	298	90	183	-	-	246	481
Other financial assets at fair value through profit and loss	77	77	-	-	-	-	77	77
Financial assets available for sale ⁽¹⁾	1	1	-	-	-	-	1	1
Hedging derivatives	-	-	8	1	-	-	8	1
Total	234	376	98	184	-	-	332	560
Financial Liabilities								
Financial liabilities held for trading	4	4	96	190	-	-	100	194
Hedging derivatives	-	-	104	95	-	-	104	95
Total	4	4	200	285	-	-	204	289

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 €80 and €81 million at March 31, 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 the case of options, price-setting models based on the Black & Scholes formula are 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 and the volatilities of all the aforementioned factors. In all cases, market data is obtained from reputed information agencies or correspond to quotes issued by official bodies.