

**REPSOL INTERNATIONAL CAPITAL LIMITED**

**FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008  
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS**

## REPSOL INTERNATIONAL CAPITAL Ltd.

### Management Report– Annual Report 2008

#### 1. General comments and results

- 1.1 The sole business of Repsol International Capital Limited is to issue preference shares in various markets and advance the net proceeds to various non-Spanish members of the Repsol YPF Group. The Company engages in no activities other than those related to the borrowing and lending of such funds.
- 1.2 The net loss for the year ended 31 December 2008 was EUR 49 million compared with a net profit of EUR 35.7 million for the year ended 31 December 2007. During April 2008 RIC cancelled its swap with a profit of EUR 0.2 millions in comparison with the profit of EUR 67.2 millions that the fair value of the swap implied in the 2007 result. This fact accounts for most of the Company's earnings decrease in 2008.
- 1.3 The Balance Sheet maintains a similar structure to that it showed at 2007 apart from the fact of the cancellation of the swap and its collateral.
- 1.4 It is not expected any significant change in the foreseeable future.

#### 2. Events after Balance Sheet date

There have been no significant events after the balance sheet date.

#### 3. Main activities perform during 2007

- Shareholder's deficit increased from EUR 256.8 million to EUR 302.3 million, an increase of 17.7%.The increase is mainly due to the loss for the year (EUR 49 million).
- Tenants of Preference Share A received a dividend of USD 54 million.
- Tenants of Preference Share B received a dividend of EUR 49 million.
- Tenants of Preference Share C received a dividend of EUR 98 million.
- During 2008 Repsol International Capital Ltd. continue to granted loans to Repsol Netherlands Finance BV. As per 31.12.2008 the amount granted to RNF arrived to EUR 3,157 million of which EUR 2,668.4 million were denominated in euros at an interest rate of 5.5% and EUR 488.6 million were denominated at USD at an interest rate of 6.44%

#### 4. Financial risk management

- 4.1 The Company's activities expose it primarily to the market risks of changes in foreign currency exchange rates and interest rates. Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

## REPSOL INTERNATIONAL CAPITAL LIMITED

- 4.2 The Group's Corporate Risk function provides services to manage the financial risk relating to the Company's operations. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.
- 4.3 Note 10 of the annual accounts provide a detailed description of the nature and extent of risk arising from the financial instruments to which the entity is exposed at the reporting date. The disclosure includes a sensitivity analysis in order for the users of the financial statements to evaluate the risks

### 5. Research and development activities

Repsol International Capital Ltd. has not carried out any research and development activities during 2008.

### 6. Operations with treasury shares

Repsol International Capital Ltd. has not carried out any own shares operations in 2008.

REPSOL INTERNATIONAL CAPITAL LIMITED

BALANCE SHEET

DECEMBER 31, 2008

Thousands of Euros			Current Period	Previous Period
ASSETS		Note	12/31/2008	12/31/2007
<b>A)</b>	<b>NON-CURRENT ASSETS</b>		<b>3.221.163</b>	<b>3.329.969</b>
	Long term loans to affiliates	4	3.156.969	3.188.761
	Other non-current assets	6	64.194	141.208
<b>B)</b>	<b>CURRENT ASSETS</b>		<b>500</b>	<b>1.078</b>
	Other debtors		-	498
	Accrued interest receivable from affiliates		495	499
	Cash and cash equivalents	3	5	81
<b>TOTAL ASSETS (A+B)</b>			<b>3.221.663</b>	<b>3.331.047</b>

The accompanying notes are an integral part of the financial statements.

REPSOL INTERNATIONAL CAPITAL LIMITED

BALANCE SHEET

(continued)

DECEMBER 31, 2008

*Before appropriation of net result*

Thousands of Euros			Current Period	Previous Period
			12/31/2008	12/31/2007
<b>LIABILITIES</b>				
<b>A)</b>	<b>SHAREHOLDER'S DEFICIT (A.1 + A.2)</b>	Note	(302.300)	(256.840)
<b>A.1)</b>	<b>EQUITY</b>		(258.815)	(209.809)
	Common stock US\$1 par value, 900 shares authorized, issued and outstanding		656	656
	Other reserves		(47.900)	(47.900)
	Accumulated deficits		(162.565)	(198.266)
	Net profit (loss)		(49.006)	35.701
<b>A.2)</b>	<b>REVALUATION CHANGES</b>		(43.485)	(47.031)
	Revaluation reserve	6	(43.485)	(47.031)
<b>B)</b>	<b>NON-CURRENT LIABILITIES</b>		<b>3.523.840</b>	<b>3.587.766</b>
	a) Non-cumulative Warranted Non-voting (Preference Shares):	7	3.459.646	3.409.188
	i) Series A – 29,000,000 shares authorized, issued and outstanding at December 31, 2008, 7.45%, US\$25 par value.		520.949	492.492
	ii) Series B – 1,000,000 shares authorized, issued and outstanding at December 31, 2008, 4%-7%, €1,000 par value.		984.772	978.272
	iii) Series C – 2,000,000 shares authorized, issued and outstanding at December 31, 2008, 4%-7%, €1,000 par value.		1.953.925	1.938.424
	b) Other non-current liabilities	6	64.194	178.578
<b>C)</b>	<b>CURRENT LIABILITIES</b>		<b>117</b>	<b>113</b>
	Payable		107	8
	a) Preference shares dividend accrued		107	-
	b) Payable to affiliates	5	6	8
	Creditors		10	113
<b>TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT (A+B+C)</b>			<b>3.221.657</b>	<b>3.331.039</b>

The accompanying notes are an integral part of the financial statements.

REPSOL INTERNATIONAL CAPITAL LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

Thousands of Euros

			CURRENT PERIOD	PREVIOUS PERIOD
		Note	12/31/2008	12/31/2007
	<b>OPERATIONAL RESULT</b>		(85)	(254)
(+)	Financial income		193,351	219,702
	Interest income from affiliates	4	181,048	183,851
	Other financial income		12,303	35,851
(-)	Financial expenses		(240,380)	(253,525)
	Preference shares dividend	9	(183,927)	(165,819)
	Amortization of issuance cost	7	(22,000)	(22,000)
	Amortization of revaluation reserve	6	(3,546)	(3,965)
	Other financial expenses		(30,907)	(61,741)
(+/-)	Unrealized fair value changes:	6	-	67,171
	Collar fair value increase		55,697	17,502
	Embedded collar fair value decrease		(55,697)	(17,502)
	Swap fair value decrease		-	67,171
(+/-)	Exchange gain (loss)	8	(1,733)	2,607
(+/-)	Gain or loss from disposal of financial instruments		(159)	-
=	<b>FINANCIAL RESULT</b>		<b>(48,921)</b>	<b>35,955</b>
=	<b>PRE-TAX RESULT</b>		<b>(49,006)</b>	<b>35,701</b>
(+/-)	Tax expense		-	-
=	<b>NET RESULT FOR THE YEAR</b>		<b>(49,006)</b>	<b>35,701</b>

The accompanying notes are an integral part of the financial statements.



REPSOL INTERNATIONAL CAPITAL LIMITED

STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 2008

Thousands of Euros CURRENT PERIOD		Equity			Revaluation Changes	Total
		Common Stock	Reserves	Net Profit (Loss)		
December 31, 2007		656	(246.166)	35.701	(47.031)	(256.840)
I.	Comprehensive income (loss)	-	-	(45.460)	-	(45.460)
II.	Capital transactions with owners	-	-	-	-	-
III.	Other changes in Shareholder's Equity	-	35.701	(39.247)	3.546	-
	Appropriation of net result	-	35.701	(35.701)	-	-
	Other changes	-	-	(3.546)	3.546	-
December 31, 2008		656	(210.465)	(49.006)	(43.485)	(302.300)

PREVIOUS PERIOD		Equity			Revaluation Changes	Total
		Common Stock	Reserves	Net Profit (Loss)		
December 31, 2006		656	(233.258)	(12.908)	(50.996)	(296.506)
I.	Comprehensive income (loss)	-	-	39.666	-	39.666
II.	Capital transactions with owners	-	-	-	-	-
III.	Other changes in Shareholder's Equity	-	(12.908)	8.943	3.965	-
	Appropriation of net result	-	(12.908)	12.908	-	-
	Other changes	-	-	(3.965)	3.965	-
December 31, 2007		656	(246.166)	35.701	(47.031)	(256.840)

The accompanying notes are an integral part of the financial statements.

REPSOL INTERNATIONAL CAPITAL LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008

Thousands of Euros		Current Period 12/31/2008	Previous Period 12/31/2007
<b>A)</b>	<b>Cash flow from operating activities (1+2+3+4)</b>	5.502	(63.186)
1	Net profit (loss)	(49.006)	35.701
2	Adjustments to the result	56.882	(117.238)
	(+) Amortization of fixed assets	-	-
	(+/-) Other adjustments to the result	56.882	(117.238)
	Unrealized fair value changes	-	(67.171)
	Amortization of revaluation reserve	3.546	3.965
	Amortization of issuance costs	22.000	22.000
	Unrealized foreign exchange gains	28.456	(58.000)
	Interest income from affiliates companies	(181.048)	(183.851)
	Dividends on Preference Shares	183.928	165.819
3	Changes in working capital	-	-
4	Other cash flows from operating activities:	(2.374)	18.351
	(-) Interest payments	(183.821)	(165.819)
	(+) Interest collections	181.052	183.849
	(+/-) Other inflows / (outflows) from operating activities	395	321
<b>B)</b>	<b>Cash flow from investing activities</b>	164.502	63.265
1	1. Payment of investments	-	(25.485)
	(-) Loans to affiliates	-	(25.485)
2	2. Proceeds from investments	164.502	88.750
	(+) Loans to affiliates	31.792	-
	(+) Other financial assets	132.710	88.750
<b>C)</b>	<b>Cash flow from financing activities</b>	(170.080)	-
	Proceeds (payments) from financial instruments	(170.080)	-
<b>D)</b>	<b>Effects of exchange rate changes on the balance of cash held in foreign currencies</b>	-	-
<b>E)</b>	<b>Net increase / (decrease) in cash and cash equivalents (A+B+C+D)</b>	(76)	79
<b>F)</b>	<b>Cash and cash equivalents, beginning of year</b>	81	2
<b>G)</b>	<b>Cash and cash equivalents, end of year (E+F)</b>	5	81

The accompanying notes are an integral part of the financial statements.



# REPSOL INTERNATIONAL CAPITAL LIMITED

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

(Expressed in Euros)

### *Note 1: Company Description*

Repsol International Capital Limited (the "Company"), formerly N.W.J.P.S.C. Limited, was incorporated on August 14, 1989, under the laws of the Cayman Islands. All the ordinary shares of the Company are owned directly by Repsol International Finance B.V., ("The Parent") a limited liability company organized under the laws of The Netherlands, all the ordinary shares of which are owned by Repsol YPF, S.A., a limited liability company organized under the laws of Spain. Repsol YPF, S.A. is an integrated oil and gas company engaged in all aspects of the petroleum business.

The sole business of the Company is to issue preference shares in various markets and advance the net proceeds to various non-Spanish members of the Repsol YPF Group (the "Group"). The Company engages in no activities other than those related to the borrowing and lending of such funds.

The Company's registered office is located at Cayside, 2<sup>nd</sup> floor, Harbour Drive, George Town, Grand Cayman, Cayman Islands (P.O. Box 30592).

As of December 31, 2008, the capital stock of the Company consisted of 900,000 ordinary shares of US\$1 par value each, fully subscribed by Repsol International Finance B.V.

### *Note 2: Basis Of Presentation and Accounting Principles*

#### *a) Basis of presentation*

These financial statements have been prepared in accordance with International Financial Reporting Standards.

The accompanying financial statements were prepared from the Company's accounting records as of December 31, 2008.

#### *b) Accounting principles*

The main accounting principles applied in preparing the accompanying financial statements are summarized as follows:

## REPSOL INTERNATIONAL CAPITAL LIMITED

### *1. Cash and Cash Equivalents*

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### *2. Derivative financial instruments*

For the year ended December 31, 2008, the only outstanding derivative instrument was the collar which is accounted for as a fair value hedge. The Company records the gain or profit from re-measuring the hedging instrument at fair value under the caption "Unrealized fair value changes" in the accompanying income statement. Also, the gain or profit on hedged items attributable to the hedged risk will adjust the carrying amount of the hedged items and be taken to period income under the caption "Unrealized fair value changes" in the accompanying income statement. This applies even if the hedged item is otherwise measured at cost. Recognition of the gain or profit attributable to the hedged risk in the income statement would also apply if the hedged items were available-for-sale financial assets.

### *3. Equity*

#### *Liabilities vs. equity classification*

Financial instruments are classified as liabilities or equity in accordance with the substance of the respective contractual arrangement on initial recognition.

Interest, dividends, gains and profits relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity (see Note 7).

### *4. Preference shares*

The preference shares issued by the Company are classified as financial liabilities because of the obligation to pay dividends if the issuer reports a distributable profit. Consequently the preference dividend is being classified as a finance cost. Transaction costs directly related to the issuance of the preference shares are deducted from the amount of debt originally recognized, and they are subsequently amortized through the income statement over the life of the financial instrument.

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### *5. Revenue Recognition*

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Interest is recognized on a time proportion basis that reflects the effective yield on the asset.

### *6. Foreign Currency transactions*

The Company translates its foreign currency transactions into its reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. At year-end, the amounts payable or receivable in foreign currencies are translated to Euros at the official exchange rate on the last business day of the year, and the resulting gains or profits are recognized in the income statement in the year in which they arise.

### *7. Income Taxes*

No income tax is levied on corporations in the Cayman Islands and, therefore, no income tax provision has been reflected in the accompanying financial statements.

### *8. Reclassification of comparative amounts*

The profit and loss corresponding to December 2007 have been adapted to the new presentation formats contained in Circular 1/2008 of the Spanish Securities and Exchange Commission (CNMV). These amendments have no impact on the Group's net worth or net profit.

Below we present a reconciliation between the profit and loss as of 31 December 2007 presented by the Company as its financial statements as of said date and the profit and loss included in these financial statements.

## REPSOL INTERNATIONAL CAPITAL LIMITED

Thousands of Euros

		2008 Financial Statements	Adjustments for change in format	2007 Financial Statements
		12/31/2007		12/31/2007
	<b>OPERATIONAL RESULT</b>	(254)	(254)	-
(+)	Financial income	219.702	-	219.702
	Interest income from affiliates	183.851	-	183.851
	Other financial income	35.851	-	35.851
(-)	Financial expenses	(253.525)	254	(253.779)
	Preference shares dividend	(165.819)	-	(165.819)
	Amortization of issuance cost	(22.000)	-	(22.000)
	Amortization of revaluation reserve	(3.965)	-	(3.965)
	Other financial expenses	(61.741)	254	(61.995)
(+/-)	Unrealized fair value changes:	67.171	-	67.171
	Collar fair value increase	17.502	-	17.502
	Embedded collar fair value decrease	(17.502)	-	(17.502)
	Swap fair value decrease	67.171	-	67.171
(+/-)	Exchange gain (loss)	2.607	-	2.607
(+/-)	Gain or loss from disposal of financial instruments	-	-	-
=	<b>FINANCIAL RESULT</b>	<b>35.955</b>	<b>254</b>	<b>35.701</b>
=	PRE-TAX RESULT	35.701	-	35.701
(+/-)	Tax expense	-	-	-
=	<b>NET RESULT FOR THE YEAR</b>	<b>35.701</b>	<b>-</b>	<b>35.701</b>

The main difference is the modification of the concept of "Operational result" which now includes expenses such as audit, lawyers and tax advisors fees, neither of which were previously included but reported under the caption "Other financial expenses".

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### *Note 3: Cash and Cash Equivalents*

The caption "Cash and cash equivalents" refers mainly to short-term deposits kept with financial institutions.

### *Note 4: Loans to Affiliates*

As of December 31, 1997, the proceeds from the issuance of the Series A Preference Shares were loaned to Repsol Netherlands Finance B.V., a limited liability company organized under the laws of The Netherlands.

During 2008 and 2007, the loan granted by the Company to Repsol Netherlands Finance B.V. in 1997, bears interest at the annual rate floor of 6.44% and 6.44%, respectively, payable on the same date as the dividend on the Series A Preference Shares. The accrued interest income from this loan, as of December 31, 2008, and December 31, 2007, amounted to €30,665,000 and €33,136,000, respectively.

The proceeds from Series B and Series C Preference Shares issuance were also loaned to Repsol Netherlands Finance B.V. in May 2001 and in December 2001, respectively. These loans accrue interest income at a floating rate floor of Euribor plus a margin never less than 1.3612%. Accrued interest as of December 31, 2008, and December 31, 2007, amounted to €150,383,000 and €150,715,000, respectively.

### *Note 5: Payable to Affiliates*

The caption "Payable to affiliates" refers to the balance of a current account with companies within the Repsol YPF group.

### *Note 6: Derivative Financial Instruments*

The Company has entered into the following derivative financial instruments:

- (i) In May 2001, the Company entered into a collar with a notional amount of € 1,000 million linked to the Series B Preference Shares issued on that date (see Note 7). The main characteristics of this collar are as follows:
  - The Company sold a right by virtue of which it would pay 3-month Euribor and receive 7% on the aforementioned notional amount with quarterly settlement periods beginning on June 30, 2001, the first maturity being on October 1, 2001, and the last on June 30, 2011.
  - The Company acquired a right by virtue of which it would pay 3-month Euribor and receive 4% on the aforementioned notional amount, with the same quarterly settlement periods and maturity dates as those mentioned in the previous paragraph.

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As a result of this zero-cost collar structure together with the economic terms of Series B of the Preferred Shares, including the collar implicit on this issuance, the final cost to be assumed by the Company, as a consequence of the preferred issuance and the collars inside and outside of it, will be for the first ten years a floating rate of 3-month Euribor flat. However, from the eleventh year on the rate will be a floating rate of 3-month Euribor plus 3.5% to be paid by the Company.

(ii) In April 2002, the Company entered into a collar with a notional amount of €1,000 million relating to the €2,000 million Series C Preference Shares issued in December 2001 (see Note 7). The characteristics of this collar are as follows:

- The Company sold a right by virtue of which it would pay 3-month Euribor and receive 7% on the aforementioned notional amount with quarterly settlement periods beginning on June 30, 2002, the first maturity being on September 30, 2002, and the last on December 31, 2011.
- The Company acquired a right by virtue of which it would pay 3-month Euribor and receive 4% on the aforementioned notional amount, with the same quarterly settlement periods and maturity dates as those mentioned in the previous paragraph.

As a result of this zero-cost collar structure, covering only half of the notional amount of Series C Preferred Shares together with the economic terms, including the collar implicit on this issuance, the final cost to be assumed by the Company as a consequence of the preferred issuance and the collars inside and outside of it, will be:

- for half of the notional amount of the issue €1,000 million, the one that has the collar aforementioned outside of the issuance, during the first ten years, a floating rate of 3-month Euribor flat. From the eleventh year, the rate will be a floating rate 3-month Euribor plus 3.5% to be paid by the Company.
- for the other half of the issue €1,000 million, the one that has no collar outside of the issuance, during the first ten years, a floating rate of 3-month Euribor flat always between 4% and 7%, as minimum and maximum cost to be paid by the Company. From the eleventh year the rate will be a floating rate 3-month Euribor plus 3.5% to be paid by the Company.

The collars are recorded at fair value (2008 - €64,194,000, 2007 - €8,498,000) as a non-current asset as of December 31, 2008 with changes in its fair value during the year recorded in the income statement under the caption "Unrealized fair value changes" in the accompanying financial statements.

The fair value of the collar is estimated by a combination of a put and a call option on interest rates using the Black's model.



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(iii) In December 1997, the Company implemented a strategy consisting of the sale of options on an interest rate swap (Swaption) which reflected the implicit option underlying the issuance of the Series A Preference Shares in October 1997. This implicit option enabled the Company to redeem the issue early, totally or partially, in October 2002 or thereafter.

In October and November 2002, the acquirers exercised their right to enter into the aforementioned swap transaction. The resulting swap transactions are being recorded at fair value as a non-current liability.

In 2003, the Company entered into an agreement with the counterparties (effective February 28, 2003, and March 3, 2003) to transform the aforementioned swaps from U.S. Dollars into Euros. The notional amounts of the two swaps resulting from such conversion are: €337,209,302 and €336,739,433, respectively. Under the new swap agreements, the Company will pay 6.7% and 6.8%, respectively, on such notional amounts from the effective exercise date to December 31, 2027, and it will receive 3-month Euribor flat from the counterparties.

Until 2007 the swap qualified as a cash flow hedge. According to IAS 39, this financial instrument was measured at fair value with changes in its fair value during the period that were determined to be an effective hedge recorded in the statement of changes in Shareholder's deficit, under the caption "Revaluation Reserve" and changes that were determined to be ineffective recorded in the income statement.

During the first quarter of 2007 the Swap failed the effectiveness test and accordingly the Company proceeded with its discontinuance starting December 31 2006. The cumulative loss deferred in equity continues to be separately recognized in equity under the caption "Revaluation Reserve" (2008 - €43,485,000 , 2007 - €47,031,000) being amortized as the swap matures. The financial instrument was recorded at fair value as a non-current liability as of December 31, 2007 for an amount of €170,079,000 with changes in the fair value recorded in the income statement under the caption "Unrealized fair value changes" in the accompanying financial statements.

In May 2008 the Interest Rate Swap was cancelled. This speculative derivative was accounted for as fair value through profit or loss and removed from the balance sheet when it was cancelled. The difference between the amount paid to extinguish the liability and the carrying amount of the liability was a loss is included in the income statement under the caption "Gain or loss from disposal of financial instruments".

The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other current assets and trade and other payables. The carrying amount of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables, which are all subject to normal trade credit terms, approximate their fair values.

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### *Note 7: Preference Shares*

#### *Series A*

In October 1997, the Company issued 29,000,000 Non-cumulative Guaranteed Non-voting Preference Shares, each of US\$25 par value, for US\$725,000,000 (the "Series A Preference Shares"). Dividend on each Series A Preference Share was fixed at a rate per annum equal to 7.45%, accruing from the date of the original issuance, and payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing December 31, 1997.

Dividends are payable only to the extent that the Distributable Profits of Repsol YPF, S.A. for the preceding fiscal year are sufficient to cover the payment of dividends on the Series A Preference Shares, together with any dividends previously paid in the current fiscal year and any dividends proposed to be paid during the current calendar quarter, on either the Series A Preference Shares or any other preference shares of Repsol YPF or any affiliate ranking *pari passu* with the Series A Preference Shares. Holders of the Series A Preference Shares will have no other right to participate in any profits of the Company.

The Series A Preference Shares are redeemable, at the option of the Company, in whole or in part, from time to time on or after October 21, 2002, at US\$25 per share, plus accrued and unpaid dividends for the then-current quarterly dividend period to the date fixed for redemption.

In the event of liquidation, the holders of Series A Preference Shares will be entitled to receive out of the assets of the Company, before any distribution to holders of ordinary shares, a liquidation preference of US\$25 for each share, plus accrued and unpaid dividends for the then-current dividend period to the date of payment.

The payment of dividends and payments upon redemption, as well as any distribution upon liquidation of the Company, are unconditionally guaranteed by Repsol YPF, S.A.

#### *Series B*

On March 26, 2001, the Board of Directors resolved to issue and sell bearer preference shares with an aggregate liquidation preference of up to €1,000,000,000, referred to as the Series B Preference Shares, to be guaranteed by Repsol YPF, S.A.

In May 2001, the Company issued 1,000,000 Non-cumulative Guaranteed Non-voting Preference Shares, each of €1,000 par value, for €1,000,000,000 (the "Series B Preference Shares"). The dividend on each Series B Preference Share will be a floating rate per annum equal to three month Euribor with a cap of 7% and a floor of 4% for the first 10 years, and for the following years three month Euribor plus a margin equal to 3.5%. The dividend will be accrued from the date of the original issuance, and payable quarterly in arrears on March 31, June 30, September 30 and December 31, of each year, commencing on June 30, 2001.

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Dividends are payable only to the extent that the Distributable Profits of Repsol YPF, S.A. for the preceding fiscal year are sufficient to cover the payment of dividends on the Series B Preference Shares, together with any dividends previously paid in the current fiscal year and any dividends proposed to be paid during the current calendar quarter, on either the Series B Preference Shares or any other preference shares of Repsol YPF or any affiliate ranking *pari passu* with the Series B Preference Shares. Holders of the Series B Preference Shares will have no other right to participate in any profits of the Company.

The Series B Preference Shares are redeemable, at the option of the Company, in whole or in part, from time to time on or after May 11, 2011 at €1,000 per share, plus accrued and unpaid dividends for the then-current quarterly dividend period to the date fixed for redemption.

The payment of dividends and payments upon redemption, as well as any distribution upon liquidation of the Company, are unconditionally guaranteed by Repsol YPF, S.A.

### *Series C*

In December 2001, the Company issued 2,000,000 Non-cumulative Guaranteed Non-voting Preference Shares, each of €1,000 par value, for €2,000,000,000 (the "Series C Preference Shares"). The dividend on each Series C Preference Share will be a floating rate per annum equal to three month Euribor with a cap of 7% and a floor of 4% for the first 10 years and for the following years three month Euribor plus a margin equal to 3.5%. The dividend will be accrued from the date of the original issuance, and payable quarterly in arrears on March 31, June 30, September 30 and December 31, of each year.

Dividends are payable only to the extent that the Distributable Profits of Repsol YPF, S.A. for the preceding fiscal year are sufficient to cover the payment of dividends on the Series C Preference Shares, together with any dividends previously paid in the current fiscal year and any dividends proposed to be paid during the current calendar quarter, on either the Series C Preference Shares or any other preference shares of Repsol YPF or any affiliate ranking *pari passu* with the Series C Preference Shares. Holders of the Series C Preference Shares will have no other right to participate in any profits of the Company.

The Series C Preference Shares are redeemable, at the option of the Company, in whole or in part, from time to time on or after December 21, 2011, at € 1,000 per share, plus accrued and unpaid dividends for the then-current quarterly dividend period to the date fixed for redemption.

The payment of dividends and payments upon redemption, as well as any distribution upon liquidation of the Company, are unconditionally guaranteed by Repsol YPF, S.A.

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### *Issuance Costs*

Transaction costs directly related to the issuance of debt instruments are deducted from the amount of debt originally recognized, and they are subsequently amortized through the income statement over the life of the instrument using the effective interest method. For such purposes transaction costs are amortized over five years for Series A, and ten years for Series B and C.

Transaction costs related to the issuance of the Series A Preference Shares, as of December 31, 2002, have been completely amortized, so that the amount in the accompanying balance sheet, regarding this issuance, is the reimbursement value of these preference shares.

### *Note 8: Exchange gains and losses*

The amount registered as exchange gain in the accompanying income statement is composed as follows:

	<u>Thousands of Euros</u>	
	<u>2008</u>	<u>2007</u>
Realized exchange gain	3	716
Revaluation exchange gain	<u>26,723</u>	<u>58,000</u>
<b>Total exchange gain</b>	<b><u>26,726</u></b>	<b><u>58,716</u></b>

The amount recorded as exchange loss in the accompanying income statement is composed as follows:

	<u>Thousands of Euros</u>	
	<u>2008</u>	<u>2007</u>
<b>Realized exchange loss</b>	<b><u>28,459</u></b>	<b><u>56,109</u></b>

### *Note 9: Payment of Dividends*

Pursuant to the classification of the Preference Shares as a financial liability the dividends paid to the holders of these Preference Shares are recorded as a financial expense.

During 2008 and 2007, the Company's Board of Directors declared the following dividends on each of Series A, B and C Preference Shares to holders:

**REPSOL INTERNATIONAL CAPITAL LIMITED**

Series	Date of payment	Dividend per share %	2008		2007	
			Effective rate per share %	Total Amount	Effective rate per share %	Total Amount
A	Quarterly at March 31, June 30, September 30, and December 31.	7.45% annual	7.45% annual	€ 36,987,000	7.45% annual	€ 39,459,000
B	Quarterly at March 31, June 30, September 30, and December 31.	Floating rate	5.55% annual (floor)	€ 48,980,000	4.86% annual (floor)	€ 42,120,000
C	Quarterly at March 31, June 30, September 30, and December 31.	Floating rate	5.67 % annual (floor)	€ 97,960,000	4.96 % annual (floor)	€ 84,240,000
				<b>€ 183,927,000</b>		<b>€ 165,819,000</b>

The effective rate per share includes the dividend accrued during the year and the amortization of the Preference Shares' issuance costs for such year.

## REPSOL INTERNATIONAL CAPITAL LIMITED

### *Note 10: Financial Risk Management*

The Company identifies, evaluates and hedges financial risks in close co-operation with its Parent Company's Financial Risk Department.

The Parent Company's Financial Risk Department, with the aim to promote best practices, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks.

The Company's activities expose it primarily to the market risks of changes in foreign currency exchange rates and interest rates. Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

### *Currency risk*

Exposures to currency risk arise from the Series A Preference Shares which are denominated in US Dollars, a currency other than its functional currency. The Company hedges this risk by granting to Repsol Netherlands Finance B.V. a US Dollar denominated loan that largely offsets the exposure. Dividends payable on Series A match the cash flows generated by the US Dollar denominated loan granted to Repsol Netherlands Finance B.V., this provides an economic hedge and no further hedging activity is undertaken.

Foreign currency denominated financial assets and liabilities, translated into Euros at the closing rate are as follows:

	<u>Thousands of Euros</u>	
	<u>2008</u>	<u>2007</u>
US Dollar denominated loan to affiliate company	488,593	468,250
Preference shares - Series A	(520,946)	(492,492)
<b>Net exposure</b>	<b>(32,353)</b>	<b>(24,242)</b>

A 10 percent strengthening of the Euro against the US dollar at 31 December would increase equity and profit or loss by EUR 2,941,000 in 2008 and EUR 2,204,000 in 2007 as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the Euro against the US Dollar would decrease equity and profit or loss by EUR 3,595,000 in 2008 and EUR 2,694,000 in 2007.



## REPSOL INTERNATIONAL CAPITAL LIMITED

### *Interest rate risk*

The Company is exposed to changes in market interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rates both in the Preference Shares and the loan granted to Repsol Netherlands Finance B.V. This is achieved by the use of interest rate swap contracts and collars.

The Company uses a Value at Risk (VaR) model and a sensibility analysis to measure the impact of the market risk relating to its financial instruments.

At 31 December 2008, if interest had been 50 basis points higher all along the yield curve with all other variables held constant, profit for the year would have been EUR 3,342,000 higher mainly as a result of the revaluation of the fair value of the swap. At 31 December 2007 with the movement in interest rates profit and equity would have been EUR 49,082,000 higher mainly as a result of the revaluation of the fair value of the swap.

### *Note 11: Going Concern*

The Company has necessary financial support to enable it to operate as a going concern and to meet its financial obligations at least until a year after the date of these financial statements.

REPSOL INTERNATIONAL CAPITAL LIMITED

Note 12 Statutory and Supervisory Board

The Statutory Directors do not receive any remuneration. The company does not have supervisory directors.

The Hague, The Netherlands,


April 21, 2009

STATUTORY DIRECTORS:

Benjamin Booker

 Rafael Guerrero Mendoza

 Luis Pieltain Alvarez Arenas

 Javier Sanz Cedron



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## Independent Auditors' report

To the Shareholder and Board of Directors of  
**Repsol International Capital Limited**

We have audited the accompanying financial statements of Repsol International Capital Limited ("the Company"), which comprise the balance sheet as at December 31, 2008, and the related statements of income, changes in shareholder's deficit and cash flows for the year then ended (all expressed in Euros), and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Repsol International Capital Limited as at December 31, 2008 and the results of its operations, changes in shareholder's deficit and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 11 to the financial statements. As explained in this note, the Parent Company has confirmed that it intends to continue its financial support to the Company to enable it to operate as a going concern and to meet its financial obligations during 2009.

A handwritten signature in dark ink that reads "Deloitte &amp; Touche".

April 21, 2009

## STATEMENT

The members of the Board of Directors of Repsol International Capital, Limited (the "Company") state that, to the best of our knowledge, the Financial Statements for the fiscal year ended on December 31<sup>st</sup> 2008 approved by the Board on April 7<sup>th</sup> 2009 are prepared in accordance with the applicable accounting principles, give a true and fair view of the net worth, of the financial situation and of the results of the Company, and that the Management Report includes a fair analysis of the Company's performance, results and position, as well as a description of the principal risks and uncertainties facing it.

Luis Pieltain Álvarez Arenas  
Director

Rafael Guerrero Mendoza  
Director

Javier Sariz Cedrón  
Director

Benjamin Booker  
Director