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PRESENTATION

Operator

Hello and welcome to the Repsol third quarter 2014 preliminary results conference call. Today's conference will be conducted by Mr. Miguel Martinez, CFO. A brief introduction will be given by Mr. Angel Bautista, Head of Investor Relations. I would like now to turn the call over to Mr. Bautista. Sir, you may begin.

Angel Bautista - *Repsol SA - Director of IR*

Thank you. Good afternoon, ladies and gentlemen, and welcome to Repsol's third-quarter results conference call. I am Angel Bautista, Director of Investor Relations. This presentation will be conducted by Mr. Miguel Martinez, CFO. Other members of the Executive Committee are joining us as well.

Before we start, I invite you to read our disclaimer note. We may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Actual results may differ materially, depending on a number of factors, as indicated on the slide.

I now hand the conference over to Mr. Martinez.

Miguel Martinez - *Repsol SA - CFO*

Thank you, Angel, and good afternoon, ladies and gentlemen. Today I'd like to discuss something which I think is very material, if somewhat unusual. The material event was the death of Christophe de Margerie in Moscow. It was a great loss for Total, the energy industry and those people everywhere trying to find solutions in a complicated world.

Christophe was not just the CEO of a major oil company. He was more than an executive. He was a leader. He challenged the industry with an enormous personality, a sense of humor and a genuine desire to work together in goodwill to improve things.

For those of you who met Christophe, you will appreciate my feelings of affection and admiration. To my colleagues at Total, I express a deep sense of loss. But I'm also grateful that people of Christophe de Margerie's enthusiasm, gift for life and common sense do rise to the top of this industry. I repeat, his loss was a material event for all of us.

And now let's start with Repsol's third-quarter results conference call. Today, we will cover two topics. First, the market environment for the quarter, together with the operational activity and the main highlights. And second, the quarterly results.

Starting with the macroeconomic environment. During the third quarter of the year, we started to receive news that has impacted the commodity and financial markets and that is still having a strong influence on them.

China and the eurozone demand shows something now of weakness and, therefore, have reduced the market forecasts of future crude and oil products demand. Volatility in the financial markets has increased. Oil supply has increased more than expected, due to the fast growth in the US and increased production in Libya.

As a consequence, during the quarter we saw declining crude prices, but the quarter finished with a much stronger dollar. Being a euro-denominated company, these effects hedge each other.

With regard to the refining environment, we saw a recovery of the refining margin indicators throughout Europe, thanks to the weaker oil prices and a strong maintenance season in the US, from which we benefit.

In the last few weeks, the downward trend in Brent crude prices has continued, reaching the lowest level since November 2010. Sustained improved refining margins are protecting us in the short term from this situation.

All Repsol actual production is profitable at current price. Moreover, the current environment does not affect our strategic projects and neither our development CapEx program. Every strategic project still to come on stream has a breakeven price below $80. Repsol faces the current environment from a very solid and low gear financial position.

Let's move now to the operational activity.

Starting with the upstream business in exploration, since the publication of the second-quarter results, eight wells have been concluded; five wells with a positive result in USA and Russia, of which three were appraisals, and three wells with a negative outcome in Libya and Liberia. Two additional wells are pending evaluation; Colombia and Angola.

In the Gulf of Mexico, we had good news from two wells. Leon, our operated ultra-deepwater well, where we have found good quality oil sands with a net pay above 150 meters. We are currently evaluating the discovery.

Additionally, we have also completed appraisal work at the Buckskin and expect to move into front-end engineering and design in 2015.

In Brazil, in Campos 33, Seat 2 is programmed to run a test following the drilling of Pao de Acucar, which we are [re-spotting] now after encountering a healthy oil column. A test was performed in the Sagitario well in block 50 of Santos, confirming that this future is a significant discovery.

In Colombia, the offshore well Orca 1, located in the Tayrona block in the Caribbean Sea, is currently preparing to run a test in the target formation.

In Angola we cannot disclose information for the time being from our first-operated well in the pre-salt segment of the Kwanza basin, named Locosso 1. The results of the well are under evaluation.

In Russia we have three positive wells; 31-P and 32-P in the Karabashsky second block and K3 well in the Karabashsky third block in west Siberia. We carried out production tests this year that confirmed last year's positive results.

In Alaska we are finalizing the definition of two to three pads for the first development. We'll have additional definition and potential confirm from next winter's drilling campaign.

Currently we continue to carry out drilling activity in the following areas.

In Brazil the Piracuca well is being drilled, targeting the pre-salt of the Albacora Leste producing block. Facilities are already there. Therefore, a discovery would be very easy to monetize.

In the US two non-operated wells are active; Buckskin North and the Marathon-operated well in the Key Largo prospect.

Our activities continue in Romania and in Norway and before yearend we expect to spud additional wells in Spain, Norway, Angola, Algeria, Canada and Peru.

Finally, during the quarter we obtained one new block in Algeria and dilute our stake in the Tayrona and Guajira offshore blocks in Colombia.

Turning to production activity, during the quarter we will reach an average of 366,000 barrels of oil equivalent per day. The production was 6% higher year on year and 8% if Libya is stripped out from both years. In Libya we resumed production on July 7 and were able to produce at 50% of our full capacity during the remaining part of the quarter.

In Brazil we have reached production of 120,000 barrels per day in gross terms with the first FPSO and we're expecting to have first oil from the second FPSO this month. This second FPSO is already on location. Sapinhoa field will reach plateau for both FPSOs in the second half of 2015.

Moving to the downstream division, starting with refining.

Our margin indicator was $3.9 per barrel during the quarter; higher than the $2.6 per barrel reached during the third quarter of 2013. The increase was due to the good behavior of the spread between products, except the middle-distillates, and Brent that offset the weaker behavior of the spread between light and heavy crude oil.

Distillation utilization rate was 84.8% during the quarter and the conversion capacity reached 106% of utilization.

In petrochemicals the improvement of the market environment as well as the adjustments undertaken by the business during 2013 allowed us to maintain the positive results achieved in previous quarters.

Volumes in the marketing business remained stable year on year.

Finally, I'd like to briefly explain the recent acquisition of the Chilean company, Compania General de Electricidad, CGE, by Gas Natural Fenosa

This acquisition reinforces the leadership of Gas Natural Fenosa in gas distribution in Latin America with the entrance in a stable and growing economy where Gas Natural Fenosa did not have a presence, providing a platform for the consolidation for power distribution in LatAm and further growth in power generation in Chile.

This transaction is consistent with Gas Natural Fenosa's strategic priorities, which aim to increase its international diversification.

From a financial point of view it does not change the solid financial position of Gas Natural, having a low impact on the gearing ratio of the company. Gas Natural Fenosa has reaffirmed its intention to maintain the actual payout policy and, therefore, considering the accretive nature of this acquisition, even increase the level of dividends paid to shareholders.

I will now explain our third-quarter earnings performance.

Adjusted net income stood at EUR415 million; 41% higher than in the third quarter of 2013. The accumulated adjusted net income for the first nine months of the year is EUR1.3 billion; 10% higher than in 2013.

On a business-by-business basis, starting from the upstream business, adjusted net income was EUR185 million; in line with the third quarter of 2013.

The basic differences are mainly due to increased production year on year in Brazil, the US, Peru, Bolivia and Russia, which resulted in a positive impact on operating income of EUR63 million; lower crude and gas realization prices, which had a negative impact on operating income of EUR56 million. Higher depreciation charges due to higher production had a negative impact on operating income of EUR42 million. Lower exploration costs led to an increase in operating income of EUR38 million, mainly due to lower amortization of bonds and wells.

In 3Q 2014 we accounted for five exploration wells with a negative outcome; Iroko-1 and Timbo-1 in Liberia and Agrub in Libya. Additionally, two wells have been reclassified as negative; Jupiter-1 in Sierra Leone and Magadi-1 in Brazil, previously under evaluation.

Higher taxes had a negative impact of EUR17 million. Other items, such as the minority interests and equity affiliates and other costs, explain the remaining differences.

Turning to our downstream division, adjusted net income was EUR190 million; 77% higher than in the third quarter of 2013.

In refining the margin improvement had a positive impact at the operating level of EUR137 million.

In the petrochemical business better margins and volumes allow us to improve the operating income by EUR38 million.

The commercial business had results in line with the same year-ago period.

The gas and power business operating income was EUR47 million lower year on year. The results of the North American operations were affected by the warm season and the negative results from the hedging positions.

In 2013 our results in North America were positively impacted by compensations received from suppliers for the deviation of cargos to other destinations. Results and trading and other activities explain the remaining difference.

In Gas Natural Fenosa the EUR92 million adjusted net income in the third quarter of 2014 was 13% lower year on year. These lower results are mainly explained by the lower results in the gas commercialization business, due to the new regulations approved this year in Spain, and the sale of the telecom business carried out during the second quarter of 2014.

Turning now to our financial situation, the Group net financial debt at the end of the third quarter amounted to EUR2 billion; approximately EUR3.4 billion lower than at the end of 2013. Net debt over capital employed ratio stands at only 6.6%.

Our liquidity position, cash and outstanding credit lines is EUR10.5 billion, sufficient to cover short-term maturities 3.6 times.

In conclusion, operationally speaking we continued to deliver the production growth target established in our strategic plan. During the quarter we received some good news from our exploratory activity, which will create further opportunities to our future growth.

In downstream we were able to capture the improved market momentum.

Additionally, I'd like to take this opportunity to underline the resilience of our earnings to this weaker crude oil price environment since Repsol production is still 60% gas; the quality and relative size of our downstream assets protect us, along with the better performance of the spread of those products not indexed to crude oil prices; the negative correlation between oil prices and the dollar/euro exchange rate also provides a hedge; and the solid and stable results from Gas Natural Fenosa are not affected by Brent price.

Finally, we continue analyzing the market in order to pursue a possible inorganic transaction and probably, as a result of the new macroeconomic scenario, better opportunities could arise.

And now we will be pleased to answer any questions you may have. Thank you very much for your attention.

QUESTIONS AND ANSWERS

Angel Bautista - *Repsol SA - Director of IR*

Thank you very much. And now we'll move into the Q&A session. We've also enabled a tab in the webcast in order to post questions. Please use it only in the event there are connection problems on the call. You can identify it by a tab called Ask a Question. We will address, if any, these questions at the end.

Operator

(Operator Instructions).

Angel Bautista - *Repsol SA - Director of IR*

Haythem Rashed, Morgan Stanley.

Haythem Rashed - *Morgan Stanley - Analyst*

I actually would love to pick up on the last point that you made around the inorganic opportunities you're pursuing and just with regards to the current environment.

Clearly, as you say, a lower oil price may allow you to acquire something at a more attractive price. However, I just wanted to understand how you're finding the evolution of bid/ask spreads effectively with sellers. Are you finding that sellers are willing to discuss valuations at lower oil prices? Or is that actually potentially providing some challenge with regards to executing on it on a transaction?

My second question just relates to Libya and really with regards to the more medium-term ability to carry out maintenance. Clearly, production has been better than in previous months but one of the issues remains, obviously, access into and out of the country. And perhaps if you could say something about your ability to actually maintain production and carry out necessary workover activity, etc., on the fields there and whether that might pose a challenge for you, that would be helpful. Thank you.

Miguel Martinez - *Repsol SA - CFO*

I think that your point is right. In the short term sellers' and buyers' expectations are somehow far apart. So I think that at least two or three months with this level of prices will probably close this gap into a more visual way to close a transaction.

But I agree with you. If you look at -- many of the companies have between 20% and 50% of their market cap. So spot price and expectations are far apart today.

Having said so, if prices remain at this level I think that better opportunities would arise, especially if we compare it with the situation we had three months ago.

In relation to Libya, there's no issue with maintenance. No major problems there. And the incident we had yesterday was less than 20 people robbing some cars. There was some shooting, so by safety reasons we decided to take our people out.

So I expect it to be a minor incident and that we can recover production short term. Did I answer you, Haythem?

Haythem Rashed - *Morgan Stanley - Analyst*

Yes, that's very helpful. Thank you, Miguel.

Angel Bautista - *Repsol SA - Director of IR*

Filipe Rosa, Banco Espirito Santo Investimento.

Filipe Rosa - *Banco Espirito Santo de Investimento - Analyst*

Just two questions from me. The first one relates to your exploration and appraisal campaign in the Gulf of Mexico. So you had this discovery to Leon and the positive results from Buckskin. Could you just give us a little bit more information on what could be the potential of, firstly, the Leon discovery?

And, in the case of Buckskin, what do you mean by positive? Do you think that it allowed you to support your expectations in terms of resources? Did it imply an upward revision of the resources that you estimate for this area?

And my second question relates to what is your outlook in terms of oil prices? What is your perception? Is that affecting the way you are looking at your CapEx plan? You probably need to revise it soon. Do you see any potential investments at risk with the new backdrop of oil prices?

And coming back to your intention to make an acquisition, are you revising downwards your long-term assumption for oil prices? Or do you think that you now will be able to make an acquisition at the previous valuations you were expecting because the sellers will adjust their prices to your new level or to your evaluation? Thank you very much.

Miguel Martinez - *Repsol SA - CFO*

Well, I don't know if I can put more light in the Gulf of Mexico results. Basically, in Leon we found a net pay of more than 150 meters but it's way too early to make any assessment about the potential of the discovery. We will run an appraisal well once we have rig availability and then probably we will have more light.

In relation with Buckskin, as mentioned we keep drilling now in the north part to really establish the [preceding] engineering plan and the design of the future development.

I think that also the distance between Leon and Buckskin is lower than 30 miles. So we have to think about it and all this area is going to have development closer. So it's time to think. I cannot give you more light on that.

In relation with the outlook for oil prices, I'm sure that they will fluctuate, as a first comment.

In relation with the CapEx, I would say I will not touch and we will not modify our plan for exploration. If we start exploring today, probably first oil would arrive in eight years. So we have to look more on exploration as buying an option. And buying an option is something that has proved quite a -- we have achieved good results through our model, which basically implies putting at risk and penalizing short term our P&L of $7 per barrel produced and we will keep attached to that.

And in relation to the development and the CapEx of the developments, I would say that, for sure, for future developments we are taking into account the asset scenarios but at today all the projects are ongoing and do not present any problems and for the future we'll have to see.

And, finally, in the acquisition, for sure we are revisiting long-term oil prices and really having a wide band, I would say, between $70 and $100 to analyze any possible acquisition. Did I answer you, Filipe?

Filipe Rosa - *Banco Espirito Santo de Investimento - Analyst*

Yes, thank you very much. Thank you.

Angel Bautista - *Repsol SA - Director of IR*

Thomas Adolff, Credit Suisse.

Thomas Adolff - *Credit Suisse - Analyst*

Miguel, you sounded quite excited about the acquisition of CGE. You even gave it a slide in the presentation. I just wanted to come back to the point you just made on exploration, that you said you don't plan to modify it. But if we think about lease expiries aside, perhaps it is actually better and cheaper to buy undeveloped resources than your finding cost per barrel, if anything.

We're not talking about big corporate deals or big asset deals that the others are referring to, but simplistically an opportunistic approach to buy undeveloped resources versus exploration. That's one question, if you can talk around that.

And staying with exploration perhaps, can you quantify the resource addition so far in 2014 from your exploration campaign?

And the final question I had was on Buckskin again. You did sound quite excited about the appraisal results but I wondered whether your base case, which, I think, is a standalone joint development, I think, with Moccasin or another field, whether that's still the base case or whether we should actually be thinking about, as some of the industry press talked about, a tie-back instead. Thank you.

Miguel Martinez - *Repsol SA - CFO*

In relation with the acquisition, or the (inaudible), do you think that it's not only their money of the corporation, the one that is working in the process? Also the business is totally involved in it.

We are analyzing also undeveloped resources but, in my perception, they are still not cheap. So, in that sense, I would say let's see how they evolve. But normally within two months, people don't change their mindset and sellers are still thinking oil of $110, so not much possibilities there. Okay?

In resources addition in 2014, we do not disclose that, though I'm sure that we are doing okay (multiple speakers) --

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Thomas Adolff - *Credit Suisse - Analyst*

Are you on track?

Miguel Martinez - *Repsol SA - CFO*

Sorry?

Thomas Adolff - *Credit Suisse - Analyst*

Are you on track to deliver on your annual target so far, the run rate?

Miguel Martinez - *Repsol SA - CFO*

Yes. Even if nothing happens from now until the yearend, we are okay. We are okay.

And in relation with Buckskin, really I cannot put more light than the one I gave you. There are several possibilities there. The one that you mentioned is Moccasin but there are also other developments nearby. And we'll have to see. Let the people do his job. Let's take the results from the north flank in Buckskin and then we'll be able to provide you more light. But it's way too early. (multiple speakers) Sorry about that.

Thomas Adolff - *Credit Suisse - Analyst*

Thank you.

Angel Bautista - *Repsol SA - Director of IR*

Oswald Clint, Sanford Bernstein.

Oswald Clint - *Sanford C. Bernstein - Analyst*

Maybe I think you made a comment that all of your production was economic at these prices. Could you just talk about your Mid-Continent volumes? Is that also true for that portion of your upstream in the third quarter? And what happens here at these oil prices going forward? And how should we think about that growth, volume growth, into 2015?

And then just a smaller question. Just want to make sure the Russian discoveries you have are normal developments that are outside the scope of any of the sanctions. Thank you.

Miguel Martinez - *Repsol SA - CFO*

In Mid-Continent I was telling that we reached 11,000 barrels per day last month, which is a little above our target. And the production there is profitable at $80. I think also that we have finished the carry of our partner, of SandRidge, this October.

Growth for the future, I would say that I would expect to reach 15,000 barrels, no more than that, in Mid-Continent for next year.

And in relation with the Russian discoveries, I would say first, we are not affected by sanctions. Out of the three reasons why you have to move out there, we are not in any of these circumstances.

And the development, this is still way too early to make any comment. We still have to work on the appraisal phase for a while. Did I answer you?

Oswald Clint - *Sanford C. Bernstein - Analyst*

Yes, absolutely. Thank you.

Angel Bautista - *Repsol SA - Director of IR*

Anish Kapadia, Tudor, Pickering, Holt.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

I had three questions, actually. Firstly, it seems like the bid/ask spreads are quite wide at the moment, as you mentioned. There's a number of companies that, when you look at their share prices, they look in distress and, like you said, may not accept the offers that you're thinking. Would you look to potentially go hostile for any corporates? And are you looking more at asset deals or corporate deals?

The second question is relating to Angola. We've seen, just generally in the industry, quite a few unsuccessful wells in the pre-salt in Angola. It seems like on your two wells in Angola the commerciality is highly questionable. Just wondering how you think about your Angola pre-salt exploration strategy going forward.

And then just the last one, going back to SandRidge, you mentioned that it's profitable at $80. If you look at realizations in the US, they seem like they're significantly below that at the moment. What makes you cut back on your investment in SandRidge or change anything over there? Thank you.

Miguel Martinez - *Repsol SA - CFO*

In relation with the first question, we are looking at both assets and corporates. So we are trying to look at anything that moves. And, for sure, it would be friendly. We don't believe in hostile activity. The possibility of failure there, it's enormous. So if it's a friendly transaction, we'd be there. If not, we'll have to go away and look for other possibility.

In relation with Angola, I could agree with your comments. But I think that we have just drilled two wells there, so it's way too early. Remember that in Brazil, same situation happened and, at the end, it appears. So it's a matter of keep playing and we will see.

And finally, in relation with Mid-Continent, we will keep our 30 rigs there working. If you ask me where would be the moment or the limit in which we will have to stop production, I don't have the figure in my mind but, for sure, it's lower than the prices we are seeing today.

So basically I would say, not hostile. We are looking assets and corporates. Angola needs more time. We have only just drilled two wells, so we'll have to keep trying. And finally, in Mid-Continent we will not cut back as of today prices. Okay, Anish?

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Thanks, Miguel, very clear.

Angel Bautista - *Repsol SA - Director of IR*

Flora Trindade, BPI.

Flora Trindade - *BPI - Analyst*

Three questions, if I may, the first one a bit more generic. Considering the current prices it seems increasingly likely that Sacyr will have to sell a part of the stake. So I'm just wondering if you are working together with them on this? The timeline for the refinancing is January, so it is approaching. So I just wanted to see if you have any specific view here.

And then more specifically, you mentioned in the press release a new plant in Cartagena with SK. Can you give us just a sense of how much could be the contribution to the EBIT of this plant?

And then more specific on the net debt evolution table you provide in your release in page 13. You have an income tax of EUR287 million in the quarter alone. Does this increase -- if you compare with the rest of the quarters, excluding the adjustments, does this increase is basically related with just the real that you mentioned in the previous quarter, because it seems a pretty wide change considering the FX change of the real? So I'm just wondering if this has to do also with Libya or with other issues, if you could explain the drivers, please. Thank you.

Miguel Martinez - *Repsol SA - CFO*

In relation with the first one, we're not working with them. We know that the loan matures in January 2015, but I think that the main difference we have today with what we had three years ago was that the situation has changed in many senses.

First one, we are not talking about the 20% of the Company, but about the 9%. Second, the relation with Sacyr is totally different from the one we had in the past. Third, also the financial situation is different, so the banks will probably react somehow differently.

I cannot provide you more color than that. We are not working with them and they have shown several times in public their interest on keeping their stake here. So let's see how it evolves.

In relation with Cartagena, it's difficult to analyze the EBIT by refinery because we work with the refineries as a whole. So it's difficult to really assess the EBIT of a single refinery. If you ask for SK and SK EBIT, we expect it to be on an annual basis around EUR22 million, which implies an internal rate of return of above 30%.

And finally, in the income tax, you are right. In Brazil, and due to the devaluation, we have to account a fiscal loss due to the deferred taxes. And also the impact of Libya coming into production makes the fiscal terms tougher this quarter, reaching the 48% you have seen. For the whole year I expect it to end up at 44%. Did I answer you, Flora?

Flora Trindade - *BPI - Analyst*

Yes, perfect. Thank you.

Angel Bautista - *Repsol SA - Director of IR*

Irene Himona, Societe Generale.

Irene Himona - *Societe Generale - Analyst*

I had two questions, please. Firstly on the cash flow. As you mentioned, in Q3 your cash flow did cover CapEx and dividends. I wonder if you can clarify the picture for the fourth quarter. I understand there's been a recent change to dividend tax for retail Spanish investors and some companies are paying the dividend early as a result.

Are you likely to pay the dividend in December rather than in 2015 to help them with that? In other words, are we looking at three dividend payments this year and one next year?

And my second question on the downstream, obviously a key strength this quarter. Can you talk a little bit about the trends you have seen in Spanish and European oil products demand? Are things getting a little bit better? Thank you.

Miguel Martinez - *Repsol SA - CFO*

For sure, the dividend policy is a Board decision. So my opinion is that we're not going to modify the schedule we have had in the past. So I expect dividends to be paid in January 2015.

In relation with the fiscal terms about the dividend, they basically favor solutions like the scrip. But answering to your question, I don't expect changes. And I don't expect the Board to modify the regular payment of dividends in January.

And related to products, I agree with you. We have seen a better demand in Spain, though quite tiny. And in relation with Europe, despite the good results of all the companies this quarter and the margins we have seen in October, which are even better than what we have seen in the third quarter, I'm very conservative with my approach to the refining industry in Europe, because we are still long in distillation capacity.

So we will see. Better margins, though I'm prudent in my estimates for the fourth quarter.

Taking this into account, what do I expect for the fourth quarter? I would say that, depending on Libya, with Libya on a like-for-like basis, I think we should do a little better than we have done in this quarter. Refining margins are a little better. Cold weather helps. Gas oils will have to increase margins. We'll have the fuller speed Sapinhoa. And gas and power would do better in the US.

So I'm a little optimistic in comparison with third quarter. Okay, Irene?

Irene Himona - *Societe Generale - Analyst*

Thank you. Thank you, Miguel.

Angel Bautista - *Repsol SA - Director of IR*

Hamish Clegg, Bank of America Merrill Lynch.

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Must be good to be Repsol, one of the only companies to benefit from, or at least be less impacted by, lower oil prices, given your mix. But one of the questions asked on many of the other calls has been what's the rough rule of thumb leverage to oil prices for you, which is something that all the companies have been answering us.

Second question is just on your drilling and M&A, one of the things you mentioned is the lead time on drilling a -- having a successful drilling campaign, finding oil and it coming in to the portfolio. How much would you consider using your successful drilling operations as a means to generating cash flow? It might not be organic, but, by selling stakes in some of your discoveries, that could definitely help bolster your cash position in terms of cash coming in to the business.

And you also said, if I remember rightly, earlier in the year, if you didn't do a deal by yearend you would look to be returning the excess capital on your balance sheet to shareholders. In the current environment is this something you would stick to?

Miguel Martinez - *Repsol SA - CFO*

In relation with oil price sensitivity, I'll give you something more than the oil price sensitivity. Basically after tax, a $1 fall affects us approximately in EUR18 million at after-tax result. A 10% increase in the dollar increases our EPS by 12%. And normally oil price and dollar move in the opposite directions. So we have somehow a coverage there. So this is the sensitivity we have. It's not much.

If you think that, roughly, if you want to make the account by yourself, you can do it mentally, from the 58 million barrels we may produce in oil, take out 8 million barrels to make the calculations easier, taking into account that we have fixed price in Ecuador and some PSCs, so a $50 million impact at EBIT level. Once you discount taxes and royalties there, which is 60%, you will reach the EUR18 million that I mentioned. Okay?

And in relation to return cash to shareholders, I asked for a period of 18 months up to two years last quarter. So we have covered only five months by the yearend. So I still have some room --

Hamish Clegg - *BofA Merrill Lynch - Analyst*

You've got some time.

Miguel Martinez - *Repsol SA - CFO*

(multiple speakers) Okay? And I think that we have had good time until now, not moving quickly.

And in relation with selling assets, we have done some farm outs, like in Columbia. But it's not the goal today. The farm outs we did in Columbia were based on our portfolio management issues, basically because it was exploration there. But we have plenty of cash. This is also one of our advantages today, and one of our problems because, financially talking, it's not very efficient to have EUR7 billion in cash as we have today.

So I would say no, it's not in our idea to keep selling assets or to sell assets or part of it, not at this moment. Okay?

Hamish Clegg - *BofA Merrill Lynch - Analyst*

And you said you'd never consider hostile M&A. Can you maybe elaborate a little bit more on why you wouldn't, given you could get the support of shareholders?

Miguel Martinez - *Repsol SA - CFO*

If you analyze the percentages of failure in hostile transactions, you would realize that it's quite big. And also it's not in our genes. We're pacific people and we do prefer to go hand by hand with the management and with the board of the company. And if we can really reach an agreement we will go for it. If not, there are so many companies out there that if it doesn't fit we'll look for another one. The risk of failure, it's enormous in a hostile situation.

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Angel Bautista - *Repsol SA - Director of IR*

Alastair Syme, Citibank.

Alastair Syme - *Citi - Analyst*

On your finding network, do you see much change in crude feedstock, given all the changing differentials going on in global crude markets? And do you have much flexibility to take advantage?

Can I also ask what projects you're looking to FID as we head into 2015, or the first half of 2015?

And finally, I'd love to know how much the Leon well cost, if you'd be prepared to share that. Thank you.

Miguel Martinez - *Repsol SA - CFO*

In relation with the flexibility, no major changes. And we're always active managing oil-supply baskets. So the flexibility, I would say, is more on our refining system and we take the advantage of that. And we permanently look at every type of crudes that are available.

In relation with your second question, projects that would have FID in the first half of 2015, let me think, but I think that Alaska would be basically the main one that really it's important. But we have to take into account also the campaign of next winter.

But Alaska would have a FID next year and probably also the [third] stage in Margarita. I would say those are the two main.

And in relation with Leon, the whole cost 100% of the well was $280 million.

Alastair Syme - *Citi - Analyst*

Okay, thank you.

Miguel Martinez - *Repsol SA - CFO*

It's okay, Alastair?

Alastair Syme - *Citi - Analyst*

Yes. On the crude feedstock question, I guess my point was you're seeing an increasing availability of lighter crudes as things get backed out of the US market. Can you take advantage of that in the system?

Miguel Martinez - *Repsol SA - CFO*

I would say that an increase in light crudes will not help as much, as a basic rule. Part of our advantage is between the spread of heavy and light. So if there's more light crude in the market, the spread between heavy and light would be lower.

We are handling today -- our (inaudible) include 45% of heavy stuff, so basically we would like to have a wider spread. So if the increase of light crude comes in, logically it will not help us. It's okay, Alastair?

Alastair Syme - *Citi - Analyst*

Absolutely perfect. Thank you very much.

Angel Bautista - *Repsol SA - Director of IR*

Jon Rigby, UBS.

Jon Rigby - *UBS - Analyst*

Can I just ask two questions on cash? And then just one on the downstream?

So on cash. As you're running at the moment, you're running a cash deficit for the first nine months of the year, if you ex out the working capital. So I was thinking, are you conscious of the wasting asset, in terms of your strength, your balance sheet strength? I.e., is there a sort of backstop date by which you consider you need to have done a deal, as opposed to when you'd want to?

Just related to that, on Brazil, which is now held off balance sheet to some degree, I notice that the CapEx continues to be quite heavy, obviously, because you've got a lot of work to do. Will that require more funding at any stage? Or will that effectively pay out or be able to complete the CapEx spending from its own internal funding and the Chinese funding that went in there?

And then just on the downstream, I notice the 106.6% utilization rate of your conversion units and a relatively high rate of utilization for the integrated system as a whole. Are you -- given the refining margins that existed in the third quarter, is that a good representation of a system that's running pretty much flat out? Thanks.

Miguel Martinez - *Repsol SA - CFO*

First, I'm totally conscious about cash, being the CFO of the Company and having EUR7 billion at hand. Let me tell you, everyone pretends to grab at it. So yes, I'm conscious.

We have a deficit, taking out all the non-current or extraordinary items, of EUR400 million at the end of September. And we already have paid the whole dividend for the year.

So, basically, with the better expectation I hope for this quarter, we will end up with a shortage of cash, taking into account that probably around EUR200 million in like-for-like basis for the working capital (multiple speakers) is not that big, okay? But we follow that really cautiously.

In relation with cash in Brazil, Brazil is more than funding. Our data shows that, in a regular scenario, $90 will have a permanent cash availability between $4 billion and $5 billion permanently. So it's fully funded with the capital increase we did with the Sinopec.

And in the third one, you're right. I think it's a good rate is where we should stand because, basically, we module the distillation capacity in order to maximize the conversion, which is where we really make the money. So I would say, yes. Current utilization rate, I think it's a good one.

Jon Rigby - *UBS - Analyst*

Just to follow up on that Brazil comment you just made. Is -- are there plans at some stage to bring that cash, repatriate that cash? Or will it always sit in Brazil for the foreseeable future?

Miguel Martinez - *Repsol SA - CFO*

Well, actually, what we have it's both partners have the money already in their hands. So (multiple speakers) --

Jon Rigby - *UBS - Analyst*

(multiple speakers) the loan process.

Miguel Martinez - *Repsol SA - CFO*

Yes. And we are comfortable at the present time with this situation.

Jon Rigby - *UBS - Analyst*

Okay. Cool. That clarifies it, thank you. Thanks.

Angel Bautista - *Repsol SA - Director of IR*

Joshua Stone, Barclays.

Joshua Stone - *Barclays - Analyst*

Given the fall in the oil price, I just wanted to clarify on your acquisition priorities. You've previously talked about a need for liquids and wanting to get more liquids in the portfolio, but also mentioning the advantage of having gas in a falling oil-price environment. Are those priorities unchanged? Or are you perhaps willing to maybe settle for a little more gas if the opportunity presents itself?

And then in the gas and power part of the downstream division, slightly surprised by the weakness there. Can you talk a little bit about how much you expect that to be one-off and perhaps reverse over 4Q? Thanks.

Miguel Martinez - *Repsol SA - CFO*

In relation with the first one, I would say liquids or gas is not precisely the most critical factor in the acquisition. We look more for really value and possibilities to generate value and also in stable scenarios, meaning by that that, portfolio talking, we need to be more in stable countries.

If you want my opinion, I think that there's more downside today in liquids than in gas, but it's just an opinion.

In relation with gas and power, it's quite difficult to make an assessment. I think that Algonquin last year, which is the reference price at a given moment, reached $80. So it's very much dependent on how the weather will affect the East Coast during the fourth quarter. So difficult, really difficult, to assess how the weather is going to be in the East Coast of the US. Sorry about that.

Joshua Stone - *Barclays - Analyst*

Okay. Thanks.

Angel Bautista - *Repsol SA - Director of IR*

And now with Joshua we've finished our Q&A session and this conference call. You know that any further doubts or queries you may have, the IR service, or the IR area, of Repsol is entirely at your service. And thank you very much.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.