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PRESENTATION

Operator

Welcome to the Repsol second-quarter preliminary results conference call. The conference call will be conducted by Mr. Miguel Martinez, CFO of Repsol. We will start with a brief introduction by Maria Victoria Zingoni, Director of Investor Relations. Please proceed, Maria Victoria.

Maria Zingoni - *Repsol YPF - IR Director*

Good day, ladies and gentlemen. This is Maria Victoria. On behalf of our Company let me thank you for taking the time today to attend this conference on Repsol second-quarter's results. As said, this presentation will be conducted by Miguel Martinez, our CFO. Other members of the Executive Committee are joining us as well today.

As always, before we start please 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 Miguel.

Miguel Martinez - *Repsol YPF - CFO*

Thanks, Maria. And thank you all for attending this conference on our second-quarter results. I would like to focus today on four areas; first, the quarterly results; second, the exploratory program for the second part of the year; third, the evolution of the projects that will come on stream in 2012 and early 2013; and, finally, the portfolio progression during this second quarter.

Starting with the results, this quarter we released CCS adjusted net income of EUR485m and a CCS adjusted operating income of EUR1b. The main factors that explain this specific situation are the lack of production in Libya and the strikes in Argentina.

In Libya, production has been totally interrupted since March 5. No barrels were produced during the quarter in comparison with the 41,000 barrels per day in Q2 2010. These barrels contributed around EUR200m operating income in Q2 2010, and would have contributed with [EUR250m] operating profit at 2Q '11 realization prices. Our facilities in Libya remain undamaged but the country's short-term scenario continues to be uncertain. Higher oil and gas realization prices couldn't offset production losses from Libya and the depreciation of the US dollar.

The good news for the production for next quarter will come from Shenzi in the Gulf of Mexico, since we have drilled one development well, B201, that is already producing; and we are currently drilling a second one. In consequence, our current production in the Gulf of Mexico it's at the same levels we had a year ago, around 31,000 barrels per day net to Repsol.

In YPF, production during the quarter was lower due to the labor strikes, mainly in the south of the country. These strikes had an impact of 61,000 barrels per day of crude oil, and 15,000 barrels of oil equivalent of gas [well] production per day. The strikes are over and operation resumes from July 4. The drop in oil production due to the impact of the strikes affected also the refinery throughput. In consequence, oil and oil-product purchases had to be increased to meet demand.

The net impact of this situation, plus higher operating cost due to inflation, could not be offset by higher local and international-related prices. The effect of the strikes in the quarter reduced operating income by approximately $270m.

In the first half of the year, gasoline has increased 11% and diesel 10% in dollar terms. Additionally, last Monday we raised again local prices at the pump by approximately 6% in local currency and continue the trend towards international parity.

To finish with the second-quarter results let me highlight the main aspects of the remaining business segments. Starting with LNG, adjusted operating income in second quarter '11 was EUR53m versus EUR13m posted in the same quarter last year. The year-on-year increase was driven by higher volumes mainly due to the start of the Peru LNG in June 2010, and wider LNG marketing margins.

In the Downstream business, adjusted CCS operating income was EUR224m, 39% down year on year. The year-on-year drop in earnings is mainly due to lower refining -- lower margins in the Refining and the LPG business that could not be offset by the recovery of the Chemical business that is operating in positive terrain.

Gas Natural Fenosa had a EUR188m adjusted operating income; was in line with the same quarter of last year. On June 17, the Board of Gas Natural Fenosa approved Sonatrach's entry in the Company's share capital with 3.85% shareholding. Sonatrach acquires a minority shareholding for almost EUR550m through a capital increase, excluding preferential subscription rights. This agreement is the end of the arbitration process that was in place.

The second area I would like to cover is our exploratory program for the rest of the year. On top of our already-announced success in Guara and Carioca appraisal this year, we had a positive well in the quarter, Gavea, in Campos 33 Block. The discovery includes two oil horizons; drilling results are being analyzed before continuing with the appraisal of the area. We are currently drilling five exploratory wells, two in the Brazilian Santos, Block 44, Itaborai and Tingua; one in Bolivia, Sararenda; and two in Columbia, Chipiron and Jaripeo.

We are also going ahead with our appraisal drilling campaign. In the Gulf of Mexico we have been drilling the Buckskin 2 well since May 12, and expect it to finish by the end of September. In Brazil, we are drilling three development wells; Guara Sul, Guara RDA and Piracuca 4. The extended well test of Guara is ongoing and should be completed by the month of August. And in Peru and Venezuela, Kinteroni 3 and Perla 5 gave positive results reinforcing the positive outlook for the development of the above-mentioned fields.

Last, in the second half of 2011, we will start 13 new wells. Five wells in Brazil, Pao de Acucar, Albacora Leste Pre-salt, Abare, Sagitario, and Carioca Sela. Three wells in Sierra Leone and Liberia. Two wells in Norway. And finally, Jaguey in Cuba, Jaguar in Guyana, and Sagari in Peru. These last three wells, along with Sagitario and Carioca Sela in Brazil, will not be completed until 2012.

Regarding exploration of YPF, further progress in non-conventional resources was made during the quarter. To recap, Vaca Muerta is a 30,000 square-kilometer formation with rock thickness between 50 to 400 meters. YPF has a net acreage over the formation of originally 12,000 square kilometers, which has been increased up to 14,000 square kilometers after new acquisitions. During 2010, 330 square kilometers were chosen as the initial area to perform pilots. Six vertical wells were drilled with initial flow rates of between 200 and 560 barrels per day. Information provided by these wells allow us the assessment of recoverable resources of 150m barrels of oil. In the 2011 program an additional 25 square-kilometers area was chosen for a second pilot, along with the 200-square kilometers of delineation.

The annual program included 17 new wells and fracturing existing wells of the Loma la Lata field. During this quarter we have had results in the area of Loma la Lata Norte with two latest vertical wells drilled in a possible natural fractured sweet spot. After fracturing the wells they are performing with high productivity, and their natural flow pressure and rates above 500 barrels of oil per day, with capacity to produce above 1,200 barrels of oil per day. With these results we will continue the campaign in Loma la Lata Norte with another nine wells, three of them horizontals.

As a second part of the non-conventional oil program for 2011, 13 exploratory wells would be drilled in order to assess the potential of Vaca Muerta in other parts of the Neuquina Basin. During the quarter, YPF announced that a new shale oil discovery in the Vaca Muerta formation in the Bajada de Anelo Block. The well was 3,000 meters depth, in which three fractures were made in 150 meters. The result of the well delivered an average production of 250 barrels flowing naturally.

Such good results come from a well which does not have the best geological conditions, low carbonate contained; and drilled in a rock thickness of only 135 meters. This encourage us to expect improved result in future wells, with better geology. We will go ahead with the exploration program in the rest of the basin in which we are close to fracturing three wells already drilled. Before the end of the year we will drill with our partners at least the nine additional exploration wells.

Moving to the third area of discussion today, let me share with you the status of the key growth projects that will start coming on stream in the coming months. Cartagena, with 95% project completion, the startup of the units will be carried out during the months of August and September; and they are expected to be in operations by October. Final total costs are expected to reach EUR3.2b, EUR300m less than the original budget. Bilbao will begin a startup of the units by the month of October. Projects completion is at 95% and we continue monitoring the increase in refining margins these investments will generate. So far this year we maintained the additional range of $2 up to $3 per barrel for the whole of our Spanish production.

In Kinteroni, the appraisal campaign has been successful with Kinteroni 2 and 3 already drilled and tested. The construction of production and gasification facilities is currently underway. First gas production of 5m cubic meters per day is to come on stream in second quarter of 2012 as planned. Overall project CapEx is below budget. In Margarita, the first phase of the project, which includes the 6m-cubic-meters-per-day-plan expansion, plus the hookup of three existing wells, is at a 53% of project completion; and it's expected to start production in the second quarter of 2012.

The Argentinean and Bolivian governments inaugurated the gas pipeline between Bolivia and Argentina, which will allow gas exports from Bolivia to go up from 7.7m up to 11.3m cubic meters per day in an initial phase. We are already launching the second phase of the project, which will increase production by an additional 6m cubic meters per day in the fourth quarter 2013. Guara field development is progressing well with first oil expected in first quarter 2013 as planned. The results of well Guara Sul and Guara ADR (sic -- see presentation) confirm the connectivity of the reservoir and the good expectations. Construction of the first FPCO and other critical supplies is progressing well. An extended well test is currently ongoing and delivering an average of 15,000 barrels per day of gas production, only limited by gas flaring.

In the Cardon IV project, five wells have already been drilled, and the supply as well as the front-end engineering and design for the early-production facilities of up to 300m cubic feet per day capacity has been concluded. First gas is planned for late 2013. The option of accelerating a [pipe] for this production to begin output even earlier is being studied. Further option for gas export will also be analyzed jointly with the government in order to extract maximum commercial value from the field and bring production to up to 1,200m standard cubic feet per day in a second phase.

Regarding the Carabobo project, early production has been set to 2014. Additional efforts are being made to bring forward the production of first oil of small volumes. We are already contracting the rig for the [graphic] wells and the 3D seismic while progressing with engineering activities of oil production facilities. The front-end engineering and design of the upgrader has been tendered and bids are currently under evaluation.

The fourth and last topic I would like to go through is the enhancement we have achieved in our portfolio through some operations. First, the completion of the last stage of the partial sale of Repsol's stake in YPF after the successful placement of YPF shares among international institutional investors, and the Petersen Group's exercise of the 10% call option. This latter stage consisted of a placement of 0.73% of shares among investors in the Argentinean local market. This was a very relevant transaction for the Argentinean market since it represents approximately seven days of trading. It also shows the significant interest and support of the local investment community in the equity story of our Subsidiary.

After this transaction, Repsol retains a majority stake of 57.4%; the Petersen Group owns a 25.5%; and free float is 17.1%; 1.1% in Buenos Aires. If we consider the 1.6 call option in place, and assume it's executed before January 2012, our YPF stake would then be 55.8%. We feel comfortable with this stake in our (inaudible) and are not contemplating further sales in the short term. We feel that we have already achieved our objective of diversifying our portfolio, retaining at the same time a majority stake in order to capture the upside potential that YPF is offering.

Second, our joint venture with Alliance Oil in Russia. On June 18, Repsol and Alliance Oil Company executed a letter of intent for the purpose of creating a joint venture that will serve as a growth platform for both Companies in the Russian Federation. Alliance Oil will hold a 51% stake in the joint venture, contributing producing assets in the Volga-Urals region; while Repsol will hold the remaining 49%, contributing an initial investment to finance future growth opportunities. The transaction is pending negotiations on the final terms and conditions of the agreements, the due diligence report on the assets to be contributed by Alliance Oil, and corresponding regulatory and Corporate approvals.

The transaction should materialize during this year. This deal is aligned with our strategy of searching new platforms for future growth with limited geographical and financial exposure, local partner and exploration upside. This is a similar approach to the one pursued in our recent entry in onshore and offshore blocks in Alaska. In both cases we targeted cash-flow contribution in the medium term through volume growth but focus on value creation. Our robust financial position allows us to target this kind of small transaction while focusing on the operational performance to deliver the projects as planned.

The Group net financial debt at the end of the second quarter 2011, excluding Gas Natural Fenosa, remains at approximately EUR2b; while the liquidity position has remained close to EUR10b, in line with the prudent approach we have been sustaining throughout the financial economic crisis period.

Summing up, our P&L performance this quarter was challenging. As we have mentioned at the beginning of the year, 2011 will be the transition year to lay the groundwork for the next stage of growth. Additionally, the first half of it was impacted by the aforementioned issues of Libya and the Argentinean strikes. We are committed to medium and long-term value growth, expecting that the Libya production and profit improvement of the ongoing projects to start becoming a reality in the coming months. Thank you for your attention.

Maria Zingoni - *Repsol YPF - IR Director*

Now we are open to questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, the Q&A session will begin now. (Operator Instructions).

Maria Zingoni - *Repsol YPF - IR Director*

Let's start with the Q&A session. We have first question from Bruno Silva from BPI. Bruno, good morning.

Bruno Silva - *BPI - Analyst*

Good morning, everyone. I have three questions, if I may. The first one on YPF. I wonder if you could give us some EBIT guidance for this year? And also if you could clarify on Petroleo Plus incentives and the statement you have in the press release saying that you were actually booking incentives from last year. So how much should we see recognized in full-year '11 relative to this program?

The second question on Refining and Marketing, you already commented once again that the impact of the conversion project would be $2, $3 per barrel. Could you just update us on the impact on an OpEx-per-barrel-impact of this project?

And thirdly, on E&P we -- you said at the beginning of the year that Carioca and the declaration of commerciality shouldn't bring an upgrade of recoverable resources. That's what I understood at the time. In the meantime, BG gave aggressive comment outside the consortium scope on Block 9; I don't know if you want to add anything on that? And if you believe that there could be good news volume-wise towards the end of this year with declaration of commerciality?

And related to that, I would like to understand your stance today with the recent results that you have not announced yet from exploration and appraisal activity, how does it change your previous stance on contingent resources potential addition this year? And in particular, if Gavea and Block 44 prospects have any impact at all in those, in those expectations? Thank you very much.

Miguel Martinez - *Repsol YPF - CFO*

Okay. Well, regarding the first question on YPF, I think that we have passed the worst part of the year. I mean the strikes really harm our P&L in this part of the year, and I think that right now the situation is calm. And for the rest of the year, as everyone as already increased their salaries, we don't expect any type of conflict or social conflicts. So if I will have to bet on an EBIT guidance, I will say that probably we will recover in the second part of the year to end up more or less at the same level that we did in 2010. Okay?

Regarding Petroleo Plus, we didn't award it -- or we didn't gain the right in the first and second quarter [that] was expected, because, if you remember the -- we suffer another strike on December 2010. So, and my guidance for the rest of the year is that third quarter for sure we will not be able to award the Petroleo Plus. And I have doubts regarding the fourth quarter. The fourth quarter will represent roughly, before taxes, something around $55m. What we have account this year, it's $85m on the program Reserve Plus, which, if you remember on liquids last year our replacement ratio was over 100. So we are awarded with this Reserve Plus issue, which, initially we have account with $87m.

In relation with the Refining and Marketing, if I had to give you a figure on the breakeven in relation with the OpEx, I would say that the breakeven operating result after investment should be close to $4 per barrel. This is the data I can give you.

And in relation with E&P, in -- we kept the same expectations that we had in the past regarding Brazil. We are quite bullish about Brazil and we respect a lot on -- on the opinion of BG, but I think that it's only an extra comment. And we will see. There's still a lot of exploration to go, but we keep thinking that Brazil will deliver a lot for all the companies that are there in the following years.

And in relation with Gavea, we haven't yet detailed any volume. Other works need to be done before assessing any figure. And finally in relation with Carioca, the commerciality, it's going to depend a lot in many issues. I think that in the last part of the year we will drill Carioca Sela, and I think that this well is the one that will somehow determine the future of the prospect. Did I answer you, Bruno?

Bruno Silva - *BPI - Analyst*

Yes, it was very clear. Thank you very much.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Bruno. We have a next question from Irene Himona from Societe Generale. Irene, good morning. Please go ahead with your question.

Irene Himona - *Societe Generale - Analyst*

Yes, good morning. I just had two questions please. First of all on cash flow, cash flow from operations, if you exclude working capital in the first half, was about EUR3.3b; so it is down 15% year on year. Could you say perhaps what the impact of Libya and YPF were on cash flows in the first half?

And secondly, if you could just remind us of the CapEx budget for this year? And also how it may decline in 2012 as the refining projects complete?

Miguel Martinez - *Repsol YPF - CFO*

Thanks, Irene. Well, Libya impact, as I mentioned, it's difficult to assess which would have been the prices of Libya, I mean the prices of oil -- with Libya in production. But at the existing prices Libya has represented, after tax, approximately EUR110m. Then you have to add up to this the -- on annual basis; this figure is only for a quarter; but on annual basis the depreciation in Libya is around $120m. So basically in the first quarter Libya has represented a loss of [180m], because the first quarter we did produce, if you remember, during two months. And then you have the $60m of depreciation.

In Argentina, the impact has been $270m, and the depreciation was reduced due to the lack of production by $50m approximately. So I think that with these two factors, more or less you can get the whole picture regarding the cash flow questions.

The CapEx budget for the year was EUR6.4b and my estimate is that we will be a little below that figure, probably around EUR6b. The reason for that, basically, in one hand, the strikes in Argentina during the whole quarter has reduced our investments in the south of Argentina, as an issue. And the second one is that the de facto moratorium reduced our investments in the US Gulf of Mexico during the first quarter of the year. So probably we will get around EUR6b for the whole year, euros. Okay, Irene?

Irene Himona - *Societe Generale - Analyst*

Thank you.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Irene. We have now Filipe Rosa from Espirito Santo. Filipe, good morning.

Filipe Rosa - *Espirito Santo - Analyst*

Hi, good morning, everyone. Two questions, if I may. The first one relates to the exploratory activity in Brazil. You are -- could you give us a little bit more color on the timings you expect the wells to be drilled in the northern part of the Block BM-S-11? When do you expect the results of the drilling?

And the second one also related to the overall exploratory activity. You mentioned in your report, in your presentation, that there will be some of the exploration wells, the results will only be known in 2012. Is there -- is this -- does this mean that there has been a delay in your overall exploratory activity? Or is everything on track with your initial plans? Thank you very much.

Miguel Martinez - *Repsol YPF - CFO*

I cannot give you more data. Sorry about that, because some of them are correlated to the prior one, and also it depends on the results of the well, whether we have to complete the well and continue working on it. So I think that basically what you have is Carioca Sela only and Sagitario in 2012 and the rest within the year.

In relation with the second question, I would say that there has not been real delays. Basically it's what we expected and also this year we have some wells that were drilled initially in 2010 and in the first quarter of the year.

So basically the information I can provide you. The other data that perhaps could help you to model the whole thing, we expect that the total exploration expenses for the whole year would be in the range of between $620m and $650m depending on the results of the exploratory wells we still have in front of us. But on average and with the expected results we have today, the figure including G&G and G&A would be around $640m. Okay?

Filipe Rosa - *Espirito Santo - Analyst*

Okay, thank you very much. Just a follow-up question because I didn't quite understand if you detailed what has been the impact of Petroleo Plus adjustment that you made in Q2. I didn't understand this figure. Just the Q2 adjustment that you made related to 2010, could you just repeat. I don't know if you said it or not, the impact on Q2 results of YPF.

Miguel Martinez - *Repsol YPF - CFO*

Okay, this quarter we include $87m. This is for the whole year, is the award gain on 2010. (multiple speakers) still pending is that this quantity could be a little higher depending on the negotiations with the authorities. Because (technical difficulty) subsidiaries to say that we do not operate (technical difficulty). So some extra quantities will come. But I don't expect a big one okay.

Filipe Rosa - *Espirito Santo - Analyst*

So this compares with an overall impact from Petroleo Plus in 2010 of how much?

Miguel Martinez - *Repsol YPF - CFO*

For this quarter Petroleo Plus it's more or less $55m before taxes. Last year we were awarded the fourth quarter. This year, first and second are out, we did not count anything. Third quarter to me looks totally impossible due to the strikes in the second quarter. So the only doubt you can have or I can have is whether or not we will be able to achieve Petroleo Plus in the last quarter 2011. This will represent before taxes EUR55m -- $55m sorry. So after tax we are talking about $30m one way or the other.

Filipe Rosa - *Espirito Santo - Analyst*

So despite the strikes and the lower contribution of Petroleo Plus, you still guide for a flat EBIT for YPF for 2011?

Miguel Martinez - *Repsol YPF - CFO*

Yes. That's correct.

Filipe Rosa - *Espirito Santo - Analyst*

Okay, thank you very much.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Filipe. We have our next question from JP Morgan, Nitin Sharma. Nitin, good morning, please go ahead with your question.

Nitin Sharma - *JP Morgan - Analyst*

Hi, good morning. Three questions please. The first one in relation to the 10% stake option that Petersen Group has exercised. The loan that you've extended to Petersen Group, what's the period for this loan? When do you expect to get that money back?

Question two on Peru. Recent change in the government in the country. Does that have any impact whatsoever on your planned investment in that country? And two, has the state initiated any talks for potential contract changes? This is in relation to government take, etc.

Final one in relation to your marketing business. Weakening outlook in Iberia. Could you guide us on how we should be thinking about marketing volumes versus margins, etc? Thank you.

Miguel Martinez - *Repsol YPF - CFO*

Okay. First in relation with the loan to the Petersen Group to acquire the 10%, the contract is the one we sign in February 2008, which is the moment in which we gave them the call option. And all the conditions have followed this contract.

So basically we are financing 48% of the transaction which roughly represents $625m. The five first years of the loan are they don't have to pay us back anything and from then on they have another five years to pay us back. The loan gives us an interest rate of approximately, I think, it's 7.5% in dollar terms. So this is more or less the answer to the first question.

In relation with Peru, we haven't had any new or contact or any hint that makes us think that the contracts are going to modify. But we also have to take into account that today I think is the first day of Mr. Humala's PM of the Peruvian Government --- President of Peru. So still way too early to have any input from the new government.

And in relation with marketing figures, it is true that we have been hit in the last four years quite heavily in consumption here in Spain. The global figures show a little better because we have been increasing our sales to the wholesalers. But to analyze how the crisis is hitting the consumption here in Spain, we fell 4.3% I think it was in 2008, 4% in 2009, 3.5% last year and this year on average, I'm talking only about the retail side, on an accumulated basis we are falling a little below 7%. How long this crisis will extend? Well, difficult to say -- ,

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Nitin Sharma - *JP Morgan - Analyst*

Thank you. Thanks.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Nitin. We have now Mark Bloomfield from Deutsche Bank. Mark, please go ahead with your questions.

Mark Bloomfield - *Deutsche Bank - Analyst*

Good afternoon, yes. Two questions please. Firstly, just returning to CapEx, I wondered if you could give us your expectation for 2012. And drilling into that a little further, perhaps you could comment on the CapEx budget for YPF both this year and then rolling forwards into 2012.

Second question, just wondered if you could give us an update on progress towards drilling on the north slope of Alaska, and I guess specifically looking for whether you've secured rigs yet? How many wells you expect to drill and what kind of resource opportunity you might be targeting in that first phase. Thanks.

Miguel Martinez - *Repsol YPF - CFO*

Thanks, Mark. Well, CapEx going ahead, what I can tell you is that once we've finished Cartagena and Bilbao downstream that will account this year for approximately EUR1.7b, we'll reduce the CapEx down to EUR600m. EUR600m is what I would say the average that the Downstream Division will have to invest on -- I would say on a regular basis.

In relation with LNG, I would say that it's nil. I mean we have already the perimeter we wanted there.

In Argentina, it's the part that probably will vary more in the future one way or the other. Because basically the investments there goes in parallel with the rewards. So depending on how the market and the price of the evolutes in Argentina, the investments will go along with them.

Finally in Upstream I think next year, and this is advancing because I don't have the budget yet. But I would say 2011 has been the first year development CapEx was over the exploration CapEx, and the trend will continue. So probably next year the Upstream Division would be around EUR2b investment, a little below EUR2b investment.

In relation with Alaska, we are trying to move ahead as fast as possible. Our estimate today is that we would be able, if everything works out the way we are thinking, we would be able to drill five exploratory wells in the winter 2012.

Mark Bloomfield - *Deutsche Bank - Analyst*

Thanks.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Mark. We now have Stefano Vitali from UniCredit. Stefano, good morning.

Stefano Vitali - *UniCredit - Analyst*

Hi good afternoon, everyone. Just a couple of questions please. The first one on Libya, could you just give us some color on what's the situation of your assets there. And if you had to restart today, how long would it take to reach full capacity? What kind of investment do you foresee for that, etc.?

Second one is on LNG. If I sum the first two quarters' results, I get to a number which exceeds very much your guidance for the full year. Is that just because of seasonality or do you think the full-year guidance on LNG could be conservative at this stage? Thank you.

Miguel Martinez - *Repsol YPF - CFO*

In relation with Libya, at the moment we could start operations and with the data we have today it is that all our facilities are in place. It will not take us practically any time to start up production. So we are talking about weeks, two weeks, three weeks, four weeks maximum to start that production. Logically, you will have a ramp up, but we have all the people and all the teams ready to move into Libya once the conflict is solved. And the data we have today is that there has been no damage to the facilities.

In relation with LNG, I think that I gave a guidance of EUR250m operating profit in the last quarter presentation results. I get attached to that. You have to think that basically the strong winter goes from in the US from December to March. So normally results in the first quarter have to be better than in the rest of the year. Having said so, we like to be conservative on our approach.

Stefano Vitali - *UniCredit - Analyst*

Thank you very much.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Stefano. We now have Lydia Rainforth from Barclays. Good morning, Lydia.

Lydia Rainforth - *Barclays - Analyst*

Good morning. A couple of questions if I could. Firstly, are you able to give what target resources you're planning from the exploration in the second half of the year?

Then secondly, if I could go back to YPF and the salary increases that have gone through. Was that a deal for just one year or has that been done over a multi-year period?

Miguel Martinez - *Repsol YPF - CFO*

The first one, Lydia, no. You can ask but I cannot give you that. Okay. Sorry about that.

Lydia Rainforth - *Barclays - Analyst*

I had to ask.

Miguel Martinez - *Repsol YPF - CFO*

I have (multiple speakers) saying no to me. The second one, the salary increase refers to a year. Next year we will have another round probably. But it is also true that normally pressure on election years are more important than the ones we normally have to suffer. If you look at the last four years, you will see that there have not been many issues as strong as the ones we suffered this year in the South of Argentina.

Lydia Rainforth - *Barclays - Analyst*

Okay, perfect thank you.

Miguel Martinez - *Repsol YPF - CFO*

Thanks, Lydia.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Lydia. We now have, from Credit Suisse, Thomas Adolff. Thomas, good morning. Please go ahead with your questions.

Thomas Adolff - *Credit Suisse - Analyst*

Good morning thank you. Three questions please. Firstly on refining, aside from the Bilbao, Cartagena projects and you talked already about CapEx for next year and downstream. Are you considering other project sanctions, be it upgrades such as the coker that was recently stated in the press for Tarragona or self-help measures such as energy efficiency project elsewhere in your portfolio. And also can you give us a feeling for refinery utilization rates for 3Q and if you have any update on the LPG pricing following your meeting with the Ministry.

Second one, just on Gas Nat. Following the share capital increase, where does your shareholding stand now? I.e. have you bought back sufficient shares in the market to get you back to a 30% minimum again?

And finally on Brazil and more specifically regarding BMS9, there seems to be an update on the A&P website suggesting a discovery on the block. Are we talking about the Guara appraisal work? Can you comment on this please. Thank you.

Miguel Martinez - *Repsol YPF - CFO*

Well, in relation with refining, for sure there are always possibilities to improve. But right now I think that at least for the next three, four or five years, we will keep the refining system the way it is. For sure, we have investments in relation with energy efficiency which are, I would say, treated on a recurrent basis. So these are included already in the EUR550m, EUR600m of CapEx per annum that I commented.

If I have to look on a longer term, I would say that probably the system will only need an extra coker in Cartagena, but we are talking here -- sorry Tarragona. But we are talking here about 2018 so right now there's nothing on the table for the next four or five years.

In relation with Gas Natural, we already have acquired the 10m shares we needed to get our 30% stake in Gas Natural. We think it's, for us it's important to be above this 30%. So it has already been acquired. When Sonatrach joins the capital of the company, we will have -- we will be over this 30%.

The news regarding Guara is that a second level of oil has been reached, which is good news but it's way too early to measure how important this second level would be or what it would represent. For sure it is good news but we still have not enough to make any comment on that.

Thomas Adolff - *Credit Suisse - Analyst*

Thank you very much.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Thomas. We now have a next question from RBS, Barry MacCarthy. Barry, good morning.

Barry MacCarthy - *RBS - Analyst*

Good morning. I'm sorry I only have one question to ask. On slide 16 of the presentation you talk about the analogy of Vaca Muerta with some of the US shales. I didn't quite pick up what you said on that if anything. But from the data table it suggests that the analogy is not very strong. But I assume that's not the message you wanted to give. Can you just describe what you think the key message is on that slide.

Miguel Martinez - *Repsol YPF - CFO*

Okay, I hope you can see the slide now. I don't know if you can -- can you follow the slide now, Barry?

Barry MacCarthy - *RBS - Analyst*

I can see the data table which seems to suggest very different figures for the key US oil shale plays and the Vaca Muerta.

Miguel Martinez - *Repsol YPF - CFO*

Well, first the thickness of the rocks on average we compare it with Bakken and Eagle Ford. Bakken thickness is 30 meters, Eagle Ford is 70 meters and on average Vaca Muerta over here we are talking about a thickness of the rock on average of 200 meters.

The second data we have, it refers to the oil in place, estimated oil in place per square kilometer. And basically due to the thickness and the porosity of the field, we are estimating 43m barrels per square kilometer. So approximately a little below twice the estimated oil in place per square kilometer in Eagle Ford.

So we are only working in a small area, it's way too early to make any extrapolation of this figure. But the only thing we have is that all the data we are obtaining from the wells we are drilling are quite positive. But I insist again it's way too early.

Barry MacCarthy - *RBS - Analyst*

Okay, but just on the EUR, the recovery factor seems much lower for the Vaca Muerta despite the greater amount of oil in place per square kilometer. Does that suggest upside risk for that number?

Miguel Martinez - *Repsol YPF - CFO*

Well, this recovery oil measures with the area we are working on. So it's a small area. We are not analyzing the 12,000 square kilometers we own in Vaca Muerta. We are talking only about the test we are performing in a very small area. And that's the reason why it looks small in comparison. So it's global for the area we are working in, not for the whole Vaca Muerta. So (inaudible) because you are totally right. The figure should have been better explained.

Also I think it's important to mention that we are still working on vertical wells. So we are just starting; we are in the learning curve and we will see. Probably by the end of the year we can give you a better idea of what we have in hand. But all the data up to now compares pretty well with the best shale oil areas in the US.

Barry MacCarthy - *RBS - Analyst*

Okay, many thanks, Miguel.

Miguel Martinez - *Repsol YPF - CFO*

Thank you, Barry.

Maria Zingoni - *Repsol YPF - IR Director*

Thanks, Barry. We now have Alastair Syme from Citi. Alastair, good morning.

Alastair Syme - *Citigroup - Analyst*

Good morning, hi, Miguel. Can I just ask on the Alliance deal what sort of in principle you're still discussing on? And maybe if I could push you to give some sort of scope of deal economics, what you think the rate of return might be on that investment?

Miguel Martinez - *Repsol YPF - CFO*

Well, first, I have to say that we have been with Alliance for more than four years, so it is not that we joined them. We have been working with them for these four years looking for ideas to work together and we think we have found right now a partnership that fits pretty well. Initially we were thinking of investing $400m, $200m would remain in the company which will help us to probably aim for other small acquisitions with the joint venture.

And in relation to returns, we are not expecting anything extraordinary. We are talking 15% or 16% rate of return on the estimates we have on the table. But for sure, still way too early and this is more or less what I can tell you.

Alastair Syme - *Citigroup - Analyst*

Okay, can I ask a separate question as well. Just on Shenzi, I know you're not the operator, but what sort of timeline do you think on return of full production from that asset?

Miguel Martinez - *Repsol YPF - CFO*

I would say that today with the B201 we are gaining our size about 5,000 barrels of oil per day, which put us in July at the same level we were in 2010. By October we expect the B101 to be in place and then I would say that probably this second one will balance the declining with new production that we will provide. So the second part of the year I would say would be perfectly comparable with 2010 is starting in July.

Alastair Syme - *Citigroup - Analyst*

Thank you very much.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Alastair. We now have Anish Kapadia from TPH. Anish, good morning do go ahead with your questions.

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

Good morning. I've got a couple of questions. Just on Brazil, just going to return back to that. BG were talking about de-prioritizing Abare West, basically the prospects other than Guara and Carioca on BMS9. Just wondering what your view is on this. They're then talking about not developing those this decade and following on from that, why you are going ahead with drilling Abare.

Then just a couple of quick questions on refining. Just wondering with the ramp up that you've got in the fourth quarter what EBIT contribution would you expect from the upgrades if any in the fourth quarter?

The final one, on the second sub-salt well that you were planning to drill in the US this year, just wondering if you are still going ahead with that.

Miguel Martinez - *Repsol YPF - CFO*

Well, the first one, to me the priority clear is Guara. Guara in production by 2013 first quarter it's our main objective. The rest of the areas are in permanent discussion because once they progress on the knowledge we have about one prospect or the other gets modified, they move up or I mean in front or behind. But to me the priority is Guara and right now all the data we have shows that Guara would be on line by first quarter 2013.

In relation with the progression of the EBIT for the refining business in Spain. We have to say that normally one of these ramp ups take three months. So we will start with 60% October, 80% and November and 100% in December. So we will be producing on a yearly basis 320m barrels per annum; that represents that a quarter would be in a regular condition. 80m barrels. If with the ramp up we can consider around, let's say, 50m, extra million barrels to be distillate in the quarter. So probably we are talking about $150m of gross margin, extra gross margin in the last quarter of the year. But it's an overall approach. Through our IMR people will give you a more detailed answer to that figure. But I should expect gross around $120m extra of gross margin.

And in relation with Louisiana, the studies are still finishing but I don't expect any good news. So probably we will write it off in the third quarter, the Louisiana well in the US.

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

I was just asking about the -- I think you planned to drill two wells in Louisiana. I know the first one's been written off, is the second one still planned to be drilled this year?

Miguel Martinez - *Repsol YPF - CFO*

Yes, we will follow with the plan. We try to keep consistent. Hopefully this one would be more positive than the one we drilled before.

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

Okay, thank you.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Anish. We now have from BBVA Luis de Toledo. Luis, good morning.

Luis de Toledo - *BBVA - Analyst*

Good afternoon. Just a follow up on estimates for the year, it seems that you were guiding for a tax rate of 38.5%, it seems lower than anticipated. Is this related to the different mix in production I guess?

We've had also questions regarding depreciation rate. You guided on last quarter call at a level of EUR4b. It seems that it might get a little lower than that.

And again on CapEx, specifically on YBF, do you expect the second half CapEx YPF at a similar level for the first half of the year? I know it will very depend on conditions but could you give us some more color on that? Thanks.

Miguel Martinez - *Repsol YPF - CFO*

Yes, regarding the taxes, we kept with the 38%, 38.5% so no changes there. But for sure, as you mentioned, the mix and the entrance of Libya would modify that. But basically if Libya doesn't produce any extra barrels for the whole year we will be around 38.5%.

In relation with depreciation, I think that our figure for the first quarter was something around EUR1.8b. The initial estimate was EUR4b for the whole year and it probably would be a little below that. First, because depreciation in Libya is not there. Second, because the strike in Argentina also has reduced a little depreciation. And it's true that the second part of the year would be more loaded due to the investments in (inaudible). But probably that for the second part of the year we'll have EUR2b depreciation. So EUR2b plus EUR1.8b would be around EUR3.8b, EUR3.9b.

And the last question?

Luis de Toledo - *BBVA - Analyst*

Regarding (multiple speakers).

Miguel Martinez - *Repsol YPF - CFO*

CapEx. I would say more or less it would be at the same level this quarter, except for the delays we have had in the south of Argentina. But I would say that probably the second part will have an increase of probably around EUR200m.

In regular terms Argentina should end the year around EUR2b of investment and this first quarter -- this first semester was below that figure. But normally it happens that way always in Argentina. The second part is more loaded, normally because the first quarter people tend to close the prior year deals. I would say EUR2b is a good approach for the final CapEx in Argentina.

Luis de Toledo - *BBVA - Analyst*

Okay thanks.

Maria Zingoni - *Repsol YPF - IR Director*

Thank you, Luis. We now have from Merrill Lynch our last question, Hootan Yazhari. Hootan, go ahead with your question.

Hootan Yazhari - *BoA Merrill Lynch - Analyst*

Afternoon, I had two quick questions. The first was regarding the well you are going to drill in Cuba. Can you give us the status update on the drilling rig whether that's in place now? There has been some reports in the press that the US are looking to interfere with that drilling rig to do some inspections before it's being allowed. I just wanted to get some clarification there.

The second question I had was regarding the LNG side of the business. Once you have the contracts beginning with the Mexican Power operators, will that lead to less probability of replicating the very strong earnings you've had in LNG this year? Because they're committed to contracts or do you think you can continue to have very strong profitability on that side? Thank you.

Miguel Martinez - *Repsol YPF - CFO*

Well, in Cuba we expect the Scarabeo platform to start the drilling by the end of October and November. November. And in relation with the American authorities, we haven't received any call or any hint or any message. So we expect to be drilling in November in Cuba with our partners Statoil and ONGC.

You are right in relation with the LNG. Manzanillo will probably start up operations in November with the ramp up. So no impact on the figure I gave you for the year, but in 2012, two-thirds of the Peruvian production will go there. So the capabilities we had this year of optimizing our cargos will not be there in two-thirds of the production.

Hootan Yazhari - *BoA Merrill Lynch - Analyst*

Okay, thank you.

Maria Zingoni - *Repsol YPF - IR Director*

Okay, thank you. We don't have more questions, so thank you. If you have further questions don't hesitate to contact any of us at the IR Department.

Operator

Thank you for attending this conference call. Goodbye.
