

FINAL TRANSCRIPT

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REP - Q3 2010 Repsol YPF Earnings Conference Call

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UBS - Analyst

PRESENTATION

Operator

Hello and welcome to the Repsol Third Quarter 2010 Results Presentation. Today, I'm pleased to present Maria Victoria Zingoni, Head of IR, and Miguel Martinez, COO.

For the first part of this call, all participants will be in listen-only mode. Afterwards, there will be a question-and answer-session. Maria Victoria, please begin.

Maria Victoria Zingoni - Repsol - VP IR

Thank you. Good day, ladies and gentlemen. This is Maria Victoria Zingoni, the Head of Investor Relations in Repsol. On behalf of our Company, I would like to thank you for taking the time to attend this conference on Repsol's third quarter results. This presentation will be conducted by Miguel Martinez, our COO.

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 slides.

I now hand the conference over to Miguel.



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Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Thanks, [Marie], and good afternoon and thanks for attending our third quarter results conference call.

This quarter, we obtain a CCS-adjusted net income of EUR502 million, 70% higher than same quarter last year. The improvement in our variables explained the good performance in the quarter compared to last year, with higher international oil and gas references, a stronger dollar against the Euro, [superior integrated] refining and marketing margins, better results in the chemical segment and the general improvement in Argentina.

Going in further detail on the above-mentioned factors, which have influenced results in the quarter, our oil realization prices increased 12% compared to same quarter last year, in line with international crude oil by [price variance], consolidating the correlation of our realization prices with international references.

Our gas realization price is 29% higher year-on-year and was in line with increases in (inaudible) on the electricity [full] price in Spain. In the refining business, the market increased from a low \$0.3 per barrel in third quarter 2009 to \$1.5 per barrel this quarter.

Our \$5.6 per barrel integrated refining and marketing margin remains among the strongest in the peer group in the first nine months of 2010. Our chemical business has also improved with both better margins and volumes, and we have continued optimizing this business, making important efforts on cost controlling measures.

In YPF, we keep posting strong reports supported by prices at the pump, 16% and 21% higher year-on-year in dollars for gasoline and diesel respectively. Better international price in the Petroleo Plus [intensive].

Let me go through main issues in the quarter. We signed in October an agreement with Sinopec to create one of the biggest energy companies in Latin America, with an equity value of \$17.8 billion, where Repsol will hold 60%. For October, Brazil will carry forward a capital increase for \$7.1 billion, which will be subscribed entirely by Sinopec. This operation values the asset of Repsol Brazil -- of Repsol in Brazil, sorry, at \$10.7 billion.

The transaction [is spending] of the approval from the government of the People's Republic of China. With this transaction, we comply with our strategic objectives, balancing our portfolio due to lower concentration of risk in a single region, putting value, our Brazilian assets, and securing the funds to develop the assets in Brazil.

Regarding our activity in Brazil, we had good news in Creal-B in the pre-salt of the Albacora Leste field. Even though more work is needed for better assessment, preliminary results are promising, and the existence of the infrastructure could facilitate an early development.

Last on Brazil, the consortiums led by Petrobras and the Brazilian company Engevix signed an agreement today for the construction of eight hulls to be used in the development phase of the Blocks 11 and 9. Two of these hulls will be used at the Block 9 for the development of the Carioca and Guara fields, as reported by Petrobras in its press release. These two hulls are additional to the one already contracted with Malbec for Guara. This stress the priority of the development of these two fields.

In Bolivia, we had a 1 TCF gas discovery in the location called Rio Grande. The resources could be very easily developed since it's a new layer in a producing field. In Venezuela, we finished last production test on the appraisal well Perla 3, with most encouraging results. Forcing our objective of continuously renovating our mining acreage, we have been awarded new blocks in Columbia and Peru, and we have farm-in [a block in Aman].

During the quarter, production in the [unintelligible] business was 346,000 barrels per day, 6% higher than the same period a year ago. This increase is explained by the new production coming from the gas fields in Peru, good operational performance of the (inaudible) [trends], the (inaudible) field in Venezuela and higher production in Libya.

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The cumulative production at September is 5.2 higher than last year. The LNG business, as we are now in the second quarter conference call, the Peru LNG project start operations by the end of June. This has had a positive impact in our third quarter results.

Liquids production in YTF has increased 2% year-on-year as a result of the incentive programs for oil production. Total production reached 551,000 barrels per day, a decline of a 3% on yearly basis but constant on a sequential basis.

Last, on Gas Natural, concerning their controversy with Sonatrach has stayed in the Company's three-quarter results conference call. Their situation is not certain and not final. Moreover, Gas Natural announced yesterday that the Federal of Switzerland has granted Gas Natural's (inaudible) petition that the arbitration award be suspended until such [unintelligible] can rule on the appeal submitted by Gas Natural Fenosa against it. Accordingly, the award has been already suspended.

Let's go now into the third quarter results. This quarter, we have been a CCS-adjusted net income of EUR502 million, 70% higher than same quarter last year. The CCS-adjusted operating income was EUR1.137 billion, 48% higher year-on-year.

Let me quickly review the variations business by business. With the (inaudible), the adjusted operating income was EUR310 million, 2.6% higher than 3Q 2009. The year-on-year variation is mainly the result of the following factors -- oil realization prices, net of royalties, had a positive impact of EUR76 million, higher exploration expenses resulting from greater activities and the amortization of Malbec and Asterix wells decreased the results by EUR66 million. The appreciation of the dollar against the Euro increased the operating result by EUR26 million. Lastly, other minor items explain the remaining difference.

In the LNG division, adjusted operating income reached EUR47 million. The results increase is mainly explained by higher LNG margins and volumes. The increased volumes have been mainly a consequence of the startup of Peru LNG.

Downstream, we doubled results compared with third quarter last year with a CCS-adjusted operating income of EUR258 million. The EUR143 million year-on-year increase is mainly the result of the following factors -- in refining, the margin of the quarter was \$1.5 per barrel compared to a \$0.3 per barrel a year ago. The utilization rate of our refining system in Spain grew both year-on-year and quarter on quarter, reaching 82% compared to 73% in second quarter 2010 and 72% in third quarter 2009. Both factors have increased results by EUR89 million.

In marketing, the margins remain solid. The result in the quarter is very similar, both year-on-year and quarter on quarter. In the year comparison, the result is EUR11 million lower. In chemicals, the trend of improvement that started this year continues its consolidation in the quarter, reaching again a positive result, thanks to the increase in both margins and volumes. The impact in results is positive by EUR82 million. The last dollar appreciation and other minor effects account for the rest of the difference.

YTF reached an adjusted operating income of EUR393 million, 86% higher than the same period a year ago. The most significant year-on-year variation are explained as follows. Higher dollar prices for liquids at the pump in the domestic market had a positive impact of EUR203 million on operating income. Year-on-year prices at the pump in dollars have increased 16 and 21% for gasoline and diesel respectively.

Higher revenues from exports and from products sold domestically, but linked to international prices had a positive impact of EUR50 million. Higher liquid sale volumes had a positive affect of EUR55 million.

In relation to gas, the higher price industrial clients could not offset lower volumes in the quarter. This business suffered a negative impact on income of EUR28 million. The 18% year-on-year increase in the operating expenses had a negative impact on income of EUR100 million. The main driver for -- of the rise was the external services expenses due to both higher activity and prices. Other effects explain the remaining variations.

Regarding Gas Natural, the adjusted operating income for the period was EUR198 million, lower by 12% to the same period last year. The lower results is mainly due to developments in Madrid and in Latin America, which do not add to results anymore.



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On a like-for-like basis, earnings were similar because business improvements in Latin America (inaudible) gas and power distribution volumes, the appreciation of local currencies and the startup of the combined cycle plant in North Durango, Mexico, was offset by lower operating income in the power business in Spain.

Going into our financial position, the EBITDA generated during that period covered investments, taxes, financial expenses, 100 payments of the dividends in July. The increase in the quarter-on-quarter net debt is mainly due to higher working capital. However, our funds remain robust, with liquidity of almost EUR7 billion and EBITDA net debt ratio of 1.4.

As a conclusion, this has been a quarter where, at an operating level, the improvement of all market and business variables positively affect our results. And at -- an organic level was determined by the transaction on our Brazilian assets.

I'll now please to answer any question you may wish to ask. Thank you.

QUESTIONS AND ANSWERS

Operator

We will now begin our question-and-answer session. (Operator instructions.)

Maria Victoria Zingoni - Repsol - VP IR

We have [four] questions. Yes, Mark Bloomfield from Deutsche Bank. Mark?

Mark Bloomfield - Deutsche Bank - Analyst

Good afternoon. Yes, just one question, please. You've already alluded to the fact that the EPC contract's been awarded for eight new FPSOs, two of which are destined to be [almost nine.] Just wondered, therefore, if you can give us any more context on the impact of those FPSO awards relating to timeline on the Guara and the Carioca developments, please.

Miguel Martinez - Repsol - Executive Director of Control and Corporate Development

Mark, our estimate today is that the first FPCO [sic] would be on working first month of 2013. But, in the first quarter in 2013, Guara should be starting the work. If we look farther ahead and regarding these two new FPSOs, by the end of 2014, they would be on track.

Mark Bloomfield - Deutsche Bank - Analyst

So, this is, [then], by the end of 2014?

Miguel Martinez - Repsol - Executive Director of Control and Corporate Development

I mean, the second one will arrive by 2014 -- the end of 2014, and 2015 is the estimate for the third one. We feel this -- sorry.

Mark Bloomfield - Deutsche Bank - Analyst

Sorry. I was going to ask would they both be on the Guara field? Or would it be one for Guara and one for Carioca, please?



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Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

First one, which is contracted with Maldec, will go straight of Guara by 2013. The other two -- one of them will go to Guara, and the other one to Carioca. So, at the end, you will have FPCOs [sic] working in Guara and one in Carioca.

Mark Bloomfield - *Deutsche Bank - Analyst*

Thank you very much.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

You're welcome, Mark.

Maria Victoria Zingoni - *Repsol - VP IR*

Thank you, Mark. We have next question from (inaudible) [Stefano] with Stefano (inaudible). Stefano, please go ahead with your question.

Unidentified Participant

Hi. Good afternoon, everyone. Two questions, if I may. The first one is on Gulf of Mexico. When do you expect to resume the drilling there in the Buckskin well? And the second question would be on YPF. You mentioned an 18% op-x increase. This is due to higher -- probably higher volumes sold, etc., but it looks to me a bit high. Can you give us some more color on that and your expectations for the future?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Okay, regarding Buckskin, we expect to resume and to start the operational well next March. So, it would be a delay over the initial estimates of about six months, okay?

Regarding the increase in op-x in Argentina, I will say that probably a -- from this 18%, more than a 15% is due -- or perhaps between 12% and (inaudible) 15% is due to price increases. [Think] that salaries are really going up between 25% and 30% in Argentina and all costs related are going really up. And about a 5%, 10% would be the increase due to additional works.

My expectations for the future is that I think that this 25% is what we can expect for next year op-x in all the areas in Argentina. Talking in pesos term, okay? So, at the end, we'll have to see whether the peso behaves against the dollar and the dollar against the euro, but pesos talking, 25% could be a good [preview].

Unidentified Participant

Thanks a lot.

Maria Victoria Zingoni - *Repsol - VP IR*

Thank you, Stefano. We have now James Hubbard from Morgan Stanley. James, good afternoon.



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James Hubbard - Morgan Stanley - Analyst

Hi, good afternoon. Two questions, please, both on Argentina. Firstly, I guess the liquids increase year-on-year is partly [down] to the incentives provided by Petroleo plus, and I'm wondering, in the context of gas volumes still declining, is there any sign of the government or administration looking at a Petroleo gas or equivalent plan -- something that would provide more incentive for people to invest in the ample gas resources in the country?

And then, secondly, obviously very strong momentum on your chart for local gasoline and diesel prices still continuing. I'm wondering, do you -- are you confident that that momentum can be continued as we enter and go through an election year in 2011?

Miguel Martinez - Repsol - Executive Director of Control and Corporate Development

Great. Thanks, James. Well, in relation with the gas, the government really already has approved a plan for it. We call it Gas Plus, and it's based on the fact that you can reach agreement with industries with a total free price. And we have been doing that in the -- I would say in the last year.

The problem is that, especially during the third quarter, which is the Argentine winter, all the volumes moves back to the retail sector on domestic consumption. This in one hand. In the other, all these agreements with industries in place of development of new fields, which takes some time to put in works. So, the -- it already exists, the Gas plus, but it's moving slower than the liquid area.

The second question -- I think that the -- in the last two years, we have been able to move around a -- 20%, in dollar terms, and we hope we will be able to continue that trend. Right now, we are, more or less, about 73% of the international price in Argentina. So, I think there is room enough to improve there. Did I answer both -- all your question, James?

James Hubbard - Morgan Stanley - Analyst

Yes. Could I ask a follow-up on the Gas Plus, please?

Miguel Martinez - Repsol - Executive Director of Control and Corporate Development

Yes, sure.

James Hubbard - Morgan Stanley - Analyst

And that -- simply that -- it doesn't -- I mean, I know there's Gas Plus then, and it's been there for, I don't know, 18 months or so, but it doesn't seem to be very effective if we just look at the country's volume of gas production and what they're having to do on the import side of things. So, is there any move or any discussion about, perhaps, looking at that plan and improving upon it or even replacing it?

Miguel Martinez - Repsol - Executive Director of Control and Corporate Development

Not in short term, but if we look at the long term, I think that the Gas Plus will start to show, but probably taking two or three years. For example, we have signed with [Valle de Real Dulce] an agreement to development a tight gas area and, for sure, this will increase the gas business. We will obtain there a very good price, but it will take time for this gas to jump into the markets.

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But, I agree with you. Short term, I don't expect an improvement in the gas area.

James Hubbard - *Morgan Stanley - Analyst*

Okay, thank you.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Thank you --.

Maria Victoria Zingoni - *Repsol - VP IR*

Thank you, James. We'll now have, from Barclay's Capital Lydia Rainforth. Lydia, good afternoon. Please go ahead with your questions.

Lydia Rainforth - *Barclays Capital - Analyst*

Hi. Good afternoon. I actually have three questions, if I could. The first one on YPF. Can you just update us on the sale process there and whether you are still looking at (inaudible) as the third industrial partner there? And then, secondly, on Gas Natural, I know you've always said that -- in the past, that you've seen it as a store of cash. Obviously, when I look at the returns that you've achieved in Brazil in the reinvestment and the upstream, would you consider looking -- or what are your plans for Gas Natural in terms of -- [if that's the store of value]? And then, just finally, could you take us through the exploration and appraisal wells that you're drilling for the rest of this year and the first part of next year?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Thanks, Lydia. Regarding the first two questions, I have to refer to our strategic plan that we launched six months ago. And we continue in both YPF and Gas Natural in the same position we were six months ago.

There has not been any movement in the last two months regarding YPF, but our will is to shrink our presence there. If you look, our shareholding in the Company, down to 50 something percent. So, we want to keep the [majority] of the Company, but we also -- I mean, it's not issue to [obtain] that bubble, okay?

So -- but, our will is there, and I will keep working on that. And if there is any new, believe me, I would be the first one to let you know, okay?

Lydia Rainforth - *Barclays Capital - Analyst*

Thank you.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

And returning to Gas Natural, I also have to refer to our strategic plan. I mean, we are not change our mind in the last six months. So, basically, we will continue with the optionality that was mentioned in our strategic plan, and it's what we keep thinking, okay? And --.



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Lydia Rainforth - *Barclays Capital - Analyst*

Okay.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Regarding drilling, we are drilling right now in Carioca Northeast. We haven't reached yet the objective. We are also drilling in mercury in [Sierra Leone], which we are almost finishing, and we are drilling also in Garoupa in Angola. And this is what we -- I mean, by the year end, we will be finishing these three wells, okay?

Lydia Rainforth - *Barclays Capital - Analyst*

Okay, perfect. Thank you very much.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

You're welcome.

Maria Victoria Zingoni - *Repsol - VP IR*

Thank you, Lydia. We now have Barry MacCarthy from Royal Bank of Scotland. Barry, please --.

Barry MacCarthy - *Royal Bank of Scotland - Analyst*

Good afternoon. Thank you for the presentation. It -- can I please ask about the Rio Grande discovery that you mentioned? One TCF, I think you said. Is that the recoverable resource? And what is your net share of that? And then, you immediately went on to Perla 3. Do your positive comments mean that there might be another uplift to the contingent resource there beyond the 15 TCF that we heard about in September in Peru?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Okay, Rio Grande -- it's one of the assets of Andina. We own there a 49% with YPFB, which is the national company. And the development of this field -- it's going to be pretty easy, okay? And the TCF is recoverable. I mean, we are not talking in place. We are talking recoverable.

And in relation with Perla, both the ministry of oil in Venezuela, Mr. Ramirez, and our partner there -- he and I gave a very close figure to the 15 TCF, and our technicians agree. I mean, we are quite positive about Perla 3, and we think that a minimum of gas in place, it's 15 TCF.

Barry MacCarthy - *Royal Bank of Scotland - Analyst*

So, gas in place equals 15?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Yes, that's our perception, which you can account for 10 TCFs minimum of recoverable.



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Barry MacCarthy - *Royal Bank of Scotland - Analyst*

So, 10 TCF recoverable?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Minimum. I mean, because the -- the last test in Perla 3 was really positive with more than 670 feet of pay -- of net pay. So, we keep thinking positive about Perla.

Barry MacCarthy - *Royal Bank of Scotland - Analyst*

Okay. Just on the Rio Grande, would that gas be earmarked -- marked for export to Argentina?

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

It would be dedicated to export, but it will be depend whether it will go to Brazil or Argentina, but it will be to export.

Barry MacCarthy - *Royal Bank of Scotland - Analyst*

Okay. Many thanks.

Maria Victoria Zingoni - *Repsol - VP IR*

We'll have the next question from BPI, Gonzalo Sanchez, please.

Gonzalo Sanchez - *BPI - Analyst*

Yes, hi. Good afternoon. Just have a couple of questions on Sinopec transaction and then another one on refining. And on Sinopec, I just wanted to know if you have consider a distribution to shareholders and extraordinary dividend on these funds received? Or you guys are thinking of keeping all the funds in there?

And on -- also on the agreement you have reached with Sinopec, this agreement -- what I will -- wanted to know if this agreement was [writ] with prior consent from your partners in the consortia? Or if it was not the case, if this could have an impact or no, and your relationship with your partners.

And then, on (inaudible) and marketing, I just wanted to know if you have any -- you could update us on the status of the upgrades [unintelligible] in the refineries and if you have any changes in your estimated improvement in the margins? Thank you very much.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Well, in relation with the first question, I mean, the dividend issue is something that at least as a first place, would be decided by the Repsol Board. But, our main idea is that these funds will go straight to finance the future investments we have to make in Brazil, which are not short. I mean, we are talking there about 15 -- between \$15 billion and \$20 billion in the next six, seven years. So, basically, these funds will go to finance our activities in Brazil.

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In relation with our partners, we obtain a waiver from them, so they knew the transaction, and they have accepted it. So -- and in relation with both Petrobras and BG, I can say there are excellent.

In the refining business, both Cartagena and Bilbao will be on time and on budget, EUR3.2 billion for Cartagena, EUR850 million for Bilbao, and both would be operating in the second part of next year. And Gonzalo, I think this is the -- what I can answer you.

Gonzalo Sanchez - *BPI - Analyst*

Thank you very much.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Thank you.

Operator

(Operator instructions.) Thank you.

Maria Victoria Zingoni - *Repsol - VP IR*

I think that there are no more question -- we have an additional question -- last minute questions from Credit Suisse with Kim Fustier. Please go ahead.

Kim Fustier - *Credit Suisse - Analyst*

Yes, hi. It's Kim Fustier from Credit Suisse. Just wanted to ask a couple questions, please, coming back to Perla. After you've upgraded reserves in place to 15 TCF, do you think there will be any changes to the field development plans in any way? And possibly, could you make an analogy export option more likely than previously? Or is too early to tell?

Secondly, on the crude pricing situation in Argentina, I think the \$42 per barrel cap on crude prices has been in place for something like three years now. Do you see any willingness in the government to raise that cap like it did, I think, in 2008 for one field? Thank you.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Well, thanks, Kim. In mean, in Perla, we keeping thinking positive, and the results are improving our perspective there. But, the figures are the ones that I give you. I mean, right now, we think that, for sure, we have a minimum of 15 TCFs gas in place.

LNG is way too early to think of it. First, we have to keep working on the field to know exactly what we have with that, and we also have to look for the needs in the area. Think that by 2012, [bella] Perla will be exporting gas to Colombia under the existing agreement between the two countries. So, we'll have to wait and keep working on the field. And -- but we are optimistic about the results we're obtaining there.

And the question about the oil price in Argentina -- in our case, we look at the business in an integrated way. So, basically, we have costs all through all the process from the [absent] part of it to the refining to the logistic to the process of commercialization, and then we obtain a price at the pump.

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So, basically, the internal price for us is a reference that -- we do not use it too much because, for us, it's simply an internal price. But, one thing is clear. Thinking mid-term or long term, prices should reach the international level both in gas and oil. Did I answer you, Kim?

Kim Fustier - *Credit Suisse - Analyst*

Yes, thank you.

Maria Victoria Zingoni - *Repsol - VP IR*

Okay, thank you, Kim. We have another question from UBS, Jon Rigby. Jon, good afternoon. Please go ahead with your questions.

Jon Rigby - *UBS - Analyst*

Hi, yes. Just a quickie on exploration, really. I mean, you referenced positive results on the Albacora Leste, deep, but obviously, this year's been marred somewhat by some quite high dry hole costs as well. I just wondered whether this sort of rethink or some change coming or likely to come in the strategy for how you spend your exploration dollars in Brazil into 2011. Thanks.

Miguel Martinez - *Repsol - Executive Director of Control and Corporate Development*

Well, regarding Creal-B, we will be drilling next year, and we'll have a better knowledge of the [Villa], and then we'll be able to give you a better opinion.

And in relation with our restoration program for next year, it will not modify what we have in front of us. As I mentioned, there would be another exploration field in Albacora next year, but that's it. The rest would be basically the initial schedule.

And we have been, right now, estimating that the second quarter would be [the one] in which we will initiate this drilling in Albacora Leste.

Jon Rigby - *UBS - Analyst*

Okay, thanks.

Maria Victoria Zingoni - *Repsol - VP IR*

Thank you, Jon. Think that we don't have more questions, so we'd like to thank you for joining us in this third quarter corporate results conference call. If you have further questions, please do not hesitate to contact the investor relations area. Thank you.

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